

In the opinion of Ice Miller, Indianapolis, Indiana (“Bond Counsel”), under existing laws, regulations, judicial decisions and rulings, interest on the Bonds (as defined herein) is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended, for federal income tax purposes. Such exclusion is conditioned upon continuing compliance by the Authority and the Borrower (each, as defined herein) with the Tax Covenants (as defined herein). In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is exempt from income taxation in the State of Indiana. See “TAX MATTERS.”

\$50,000,000
Indiana Health and Educational Facility Financing Authority
Adjustable Rate Hospital Revenue Bonds, Series 2005
(Howard Regional Health System Project)

\$30,000,000 Series 2005A
CUSIP: 45479R AB3

\$20,000,000 Series 2005B
CUSIP: 45479R AC1

Dated: date of delivery

Due: January 1, 2035

The Indiana Health and Educational Facility Financing Authority Adjustable Rate Hospital Revenue Bonds, Series 2005A (Howard Regional Health System Project) (the “Series 2005A Bonds”), and Adjustable Rate Hospital Revenue Bonds, Series 2005B (Howard Regional Health System Project) (the “Series 2005B Bonds”) (the Series 2005A Bonds and the Series 2005B Bonds, collectively, the “Bonds”), will be issued only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof. See “THE BONDS—General” and “BOOK-ENTRY ONLY SYSTEM.”

The Bonds of each series will be in a Daily Mode, a Weekly Mode, a Flexible Mode, a Semiannual Mode, a Long Mode or a Fixed Mode (each, an “Interest Mode”), which will determine the frequency and dates of payment of interest, the calculation of interest, the date of the determination and adjustment of the interest rate, and the terms upon which the Bonds of such series may be tendered for purchase, all as described herein. Subject to certain conditions described herein, the Bonds of each series may be converted from any Interest Mode (except a Fixed Mode) then in effect to another Interest Mode. Each series of Bonds initially will be in the Daily Mode, bearing interest from the date of delivery thereof at a variable rate per annum determined on a daily basis, not to exceed 10%. Interest on each series of Bonds is first payable on October 3, 2005, and thereafter on the first Business Day of each succeeding month unless and until such series of Bonds is converted to a different Interest Mode, at which time interest will be payable in accordance with the Interest Mode and interest Rate Period then applicable to the Bonds of such series. See “THE BONDS—Interest.”

The Bonds are subject to optional or mandatory tender for purchase as described herein. See “THE BONDS—Purchase.” The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS—Redemption.”

The Bonds are special and limited obligations of the Authority, payable solely from and secured exclusively by the revenues and funds pledged thereto under an Indenture of Trust and Pledge between the Authority and J.P. Morgan Trust Company, National Association, as trustee (the “Bond Trustee”), dated as of August 1, 2005 (the “Bond Indenture”), including payments to be made by The Board of Trustees of Howard Community Hospital (the “Borrower”) under a Loan Agreement (the “Loan Agreement”) dated as of August 1, 2005, by and between the Authority and the Borrower and payments to be made by the Borrower under the Series 2005 Notes (as defined herein) dated as of August 1, 2005, to be issued by the Borrower to the Authority under the Master Trust Indenture dated as of August 1, 2005, as supplemented by the Series 2005 Supplemental Master Indentures (as defined herein) (collectively, the “Master Indenture”) between the Borrower and J.P. Morgan Trust Company, National Association, Indianapolis, Indiana, as trustee (the “Master Trustee”). See “SECURITY FOR THE BONDS.”

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

Initially, the principal of and interest on the Series 2005A Bonds will be payable from draws by the Bond Trustee on an irrevocable direct-pay letter of credit (the “Series 2005A Letter of Credit”) issued by

Comerica Bank

(the “Series 2005A Bank”). Under the Series 2005A Letter of Credit, the Series 2005A Bank will be obligated to pay (i) the principal of and interest on the Series 2005A Bonds, when due, and (ii) the Purchase Price (as defined herein) of Series 2005A Bonds tendered for purchase and not remarketed, as described herein. The Series 2005A Letter of Credit is *not* available to pay any principal of or interest on, or Purchase Price of, any Series 2005B Bonds. See “THE LETTERS OF CREDIT” and APPENDIX F.

Initially, the principal of and interest on the Series 2005B Bonds will be payable from draws by the Bond Trustee on an irrevocable direct-pay letter of credit (the “Series 2005B Letter of Credit”) issued by

National City Bank of Indiana

(the “Series 2005B Bank”). Under the Series 2005B Letter of Credit, the Series 2005B Bank will be obligated to pay (i) the principal of and interest on the Series 2005B Bonds, when due, and (ii) the Purchase Price of Series 2005B Bonds tendered for purchase and not remarketed, as described herein. The Series 2005B Letter of Credit is *not* available to pay any principal of or interest on, or Purchase Price of, any Series 2005A Bonds. See “THE LETTERS OF CREDIT” and APPENDIX G.

Each of the Series 2005A Letter of Credit and the Series 2005B Letter of Credit will expire on August 31, 2010, unless earlier terminated or extended as described herein. See “THE LETTERS OF CREDIT” and “BONDHOLDERS’ RISKS—Letters of Credit.”

This cover page contains certain information for quick reference only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Bonds by Ice Miller, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed upon for the Authority by the Attorney General for the State of Indiana, for the Borrower by Ice Miller, Indianapolis, Indiana, for the Underwriters by Baker & Daniels LLP, Indianapolis, Indiana, and for the Series 2005A Bank and the Series 2005B Bank by Miller Canfield Paddock and Stone, P.L.C., Detroit, Michigan. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about August 31, 2005.

This Official Statement shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be a sale of Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing.

The information contained herein under the headings “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—Authority” has been furnished by the Indiana Health and Educational Facility Financing Authority (the “Authority”). All other information contained herein has been obtained from The Board of Trustees of Howard Community Hospital (the “Borrower”), Comerica Bank (the “Series 2005A Bank”), National City Bank of Indiana (the “Series 2005B Bank”), The Depository Trust Company (“DTC”) and other sources (other than the Authority) which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the Borrower, the Series 2005A Bank, the Series 2005B Bank or DTC since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE BOND INDENTURE OR MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The statements contained in this Official Statement, including, but not limited to, the sections “BONDHOLDERS’ RISKS” and “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL AND UTILIZATION PERFORMANCE” in APPENDIX A hereto and any other information provided by the Borrower that are not purely historical, are forward-looking statements, including statements of the Borrower’s expectations, hopes and intentions, or strategies regarding the future.

The forward-looking statements herein are necessarily based on various assumptions and estimates, and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Official Statement would prove to be accurate.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Borrower on the date hereof, and the Borrower assumes no obligation to update any such forward-looking statements.

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OFFICIAL STATEMENT

\$50,000,000

**Indiana Health and Educational Facility Financing Authority
Adjustable Rate Hospital Revenue Bonds, Series 2005
(Howard Regional Health System Project)**

\$30,000,000 Series 2005A Bonds

\$20,000,000 Series 2005B Bonds

INTRODUCTION

General

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to set forth information in connection with the offering of \$30,000,000 aggregate principal amount of Indiana Health and Educational Facility Financing Authority Adjustable Rate Hospital Revenue Bonds, Series 2005A (Howard Regional Health System Project) (the “Series 2005A Bonds”), and \$20,000,000 aggregate principal amount of Indiana Health and Educational Facility Financing Authority Adjustable Rate Hospital Revenue Bonds, Series 2005B (Howard Regional Health System Project) (the “Series 2005B Bonds”) (the Series 2005A Bonds and the Series 2005B Bonds, collectively, the “Bonds”), to be issued by the Indiana Health and Educational Facility Financing Authority (the “Authority”). The Bonds will be issued pursuant an Indenture of Trust and Pledge by and between the Authority and J.P. Morgan Trust Company, National Association, as trustee (the “Bond Trustee”), dated as of August 1, 2005 (the “Bond Indenture”). Certain terms used herein are defined in Appendix D hereto.

The Project and Plan of Finance

The Authority will loan the proceeds from the issuance and sale of the Bonds pursuant to a Loan Agreement dated as of August 1, 2005 (the “Loan Agreement”) between the Authority and The Board of Trustees of Howard Community Hospital, a body corporate and politic duly organized and validly existing under the laws of the State of Indiana (the “Borrower”). The proceeds of the Bonds will be used to: (i) finance, refinance or reimburse a portion of the costs of constructing, acquiring, renovating or equipping certain health facility property to be used by the Borrower, including without limitation emergency room renovation and expansion and the construction of an ICU/CCU addition, as well as other facilities (such health facility property, the “Project”); (ii) refinance certain outstanding indebtedness of the Borrower; and (iii) pay certain expenses related to the issuance of the Bonds, including costs of credit enhancement. See “THE PROJECT AND PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority

The Authority was established on May 15, 2005, as the successor to the Indiana Health Facility Financing Authority (the “IHFFA”), which was created in 1983 pursuant to the provisions of Indiana Code 5-1-16, as amended (the “Act”), and is organized and existing under and by virtue of the provisions of the Act, as a public body politic and corporate, not an agency of the State of Indiana (the “State”), but an independent public instrumentality exercising essential public functions. Under the Act, the Authority is authorized to make loans to “participating providers” (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of “health facility property” (as defined in the Act). See “THE AUTHORITY.”

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS

THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

The Borrower

The Borrower operates an acute care hospital (the “Hospital”) pursuant to Indiana Code 16-22-2. The Borrower also has a number of related health care entities and joint ventures that are consolidated into its financial statements. The Hospital and these consolidated entities are collectively referred to as the “System.” Upon the issuance of the Bonds, the only Member of the Obligated Group (as hereinafter defined) will be the Borrower. See Appendix A for information about the history, organization and performance of the Borrower and the System and Appendix B for certain financial statements of the System.

The Master Indenture

The terms of the Loan Agreement require the Borrower to issue and deliver to the Bond Trustee, on behalf of the Authority, a Series 2005A-1 Master Note (the “Series 2005A-1 Master Note”) and a Series 2005B-1 Master Note (the “Series 2005B-1 Master Note” and, together with the Series 2005A-1 Master Note, the “Series 2005 Notes”), each dated the date of delivery of the Bonds. The terms of the Series 2005 Notes will require joint and several payments by the Members of the Obligated Group which, together with other moneys available therefor, will pay the principal of and premium, if any, and interest on the Bonds when due. The Borrower currently is the only Member of the Obligated Group.

To evidence and secure its reimbursement and other obligations to the Series 2005A Bank under the Series 2005A Reimbursement Agreement (each as hereinafter defined), the Borrower will issue a Series 2005A-2 Master Note (the “Series 2005A-2 Note”) to the Series 2005A Bank. To evidence and secure its reimbursement and other obligations to the Series 2005B Bank under the Series 2005B Reimbursement Agreement (each as hereinafter defined), the Borrower will issue a Series 2005B-2 Master Note (the “Series 2005B-2 Note” and together with the Series 2005B-1 Note, the “Bank Notes”) to the Series 2005B Bank. The Bank Notes will rank on a parity with the Series 2005 Notes.

The Borrower may issue one or more master notes (the “Swap Notes”) requiring joint and several payments by the Members of the Obligated Group to a qualified swap provider (the “Swap Provider”), pursuant to an ISDA Master Agreement, together with schedules and confirmations thereto, between the Borrower and the Swap Provider (the “2005 Master Agreement”). The Swap Notes, if any, will rank on a parity with the Series 2005 Notes and the Bank Notes.

The Series 2005 Notes, the Bank Notes and the Swap Notes, if any, will be issued pursuant to a Master Trust Indenture dated as of August 1, 2005 (the “Original Master Indenture”), between the Borrower and J.P. Morgan Trust Company, National Association, as trustee (the “Master Trustee”), a Series 2005A-1 Supplemental Master Indenture dated as of August 1, 2005 (the “Series 2005A-1 Supplemental Indenture”), between the Borrower and the Master Trustee, with respect to the Series 2005A-1 Master Note, a Series 2005A-2 Supplemental Master Indenture dated as of August 1, 2005 (the “Series 2005A-2 Supplemental Indenture”), between the Borrower and the Master Trustee, with respect to the Series 2005A-2 Master Note, a Series 2005B-1 Supplemental Master Indenture dated as of August 1, 2005 (the “Series 2005B-1 Supplemental Indenture”), between the Borrower and the Master Trustee, with respect to the Series 2005B-1 Master Note, a Series 2005B-2 Supplemental Master Indenture dated as of August 1, 2005 (the “Series 2005B-2 Supplemental Indenture”), between the Borrower and the Master Trustee, with respect to the Series 2005B-2 Note and one or more Supplemental Master Indentures (the “Series 2005 Swap Supplemental Indentures”) between the Borrower and the Master Trustee with respect to the Swap Notes, if any. The Original Master Indenture, as supplemented and amended by the Series 2005A-1 Supplemental Indenture, the Series 2005A-2 Supplemental Indenture, the Series 2005B-1 Supplemental Indenture, the Series 2005B-2 Supplemental Indenture and the Series 2005 Swap Supplemental Indentures, if any (collectively, the “Series 2005 Supplemental Indentures”), and as further supplemented and amended from time to time, is referred to herein as the “Master Indenture.”

The Series 2005 Notes, the Bank Notes, any Swap Notes and all other master notes (including those described below in “Outstanding Indebtedness”) which may in the future be issued by the Borrower or any future Member of the Obligated Group under the Master Indenture (the Series 2005 Notes, the Bank Notes, the Swap Notes, if any, and all such other master notes, collectively, the “Notes”) will be obligations of the Borrower and any other persons who may in the future agree to become obligated for the Notes in accordance with the Master Indenture (the Borrower and such other persons, individually, an “Obligated Issuer” or “Member of the Obligated Group” and, collectively, the “Obligated Issuers” or “Obligated Group”). The Notes will be obligations of the Borrower and any future Members of the Obligated Group, and will entitle the holder thereof to the protection of the covenants, restrictions and other obligations imposed upon the Borrower and any other Members of the Obligated Group by the Master Indenture. Upon issuance of the Bonds, the Borrower will be the only Member of the Obligated Group, and it is not currently anticipated that any other entities will become Obligated Issuers. In the Bond Indenture, the Authority will assign and pledge to the Bond Trustee, for the ratable benefit of the owners of the Bonds, the Authority’s interest in the Loan Agreement (except for certain rights of the Authority with respect to indemnification and payment of administration fees and expenses), the Series 2005 Supplemental Indentures and the Series 2005 Notes. See “SECURITY FOR THE BONDS.”

The Obligated Group

The only Member of the Obligated Group upon issuance of the Bonds will be the Borrower. However, the Borrower controls, directly or indirectly, the hospitals described above and a number of other entities whose assets, liabilities and results of operations are included in the audited financial statements of the System included in APPENDIX B hereto. The information describing the financial condition of the System contained in this Official Statement includes information with respect to certain related entities of the Borrower who are not Members of the Obligated Group. As of December 31, 2004, these related entities constitute less than 5% of the total assets of the System.

Eligible institutions may elect to become Members of the Obligated Group under the Master Indenture and may issue obligations (including Notes) in order to finance their respective activities. While the Borrower and any other future Members of the Obligated Group will be jointly and severally liable for the repayment of all Notes issued under the Master Indenture, each Member (or Members) will be the principal obligor on Notes issued on its behalf under the Master Indenture. Members are liable on all Notes regardless of whether Notes are issued for them. Upon satisfaction of the conditions set forth in the Master Indenture, any Member may withdraw from the Obligated Group and be released from its obligations under the Master Indenture.

Outstanding Indebtedness

On the date of issuance of the Bonds, the Borrower also will issue its Series 2005C-1 Master Note (the “Series 2005C-1 Note”) to the Authority to collateralize the Borrower’s obligations with respect to a loan from the Authority of a portion of the proceeds of the Authority’s Variable Rate Demand Insured Revenue Bonds, Series 1985A (the “1985A Pool Loan”), which will be outstanding in the amount of \$369,780.61 on the date of issuance of the Bonds. Additionally, the Borrower will issue its Series 2005C-2 Master Note (the “Series 2005C-2 Note”) to MBIA Insurance Corporation (“MBIA”) to collateralize the Borrower’s obligations to make payments to MBIA pursuant to a Reimbursement and Indemnity Agreement dated as of January 12, 1996, which was entered into in connection with the 1985A Pool Loan. The Series 2005C-1 Note and the Series 2005C-2 Note will be issued pursuant to a Series 2005C Supplemental Master Indenture dated as of August 1, 2005, between the Borrower and the Master Trustee. The Borrower will also issue its Series 2005D Master Note (the “Series 2005D Note”) to KeyBank National Association (“KeyBank”) to secure the Borrower’s obligations to make payments to KeyBank pursuant to a Reimbursement Agreement dated as of January 12, 1996 between KeyBank and the Borrower entered into in connection with the issuance of a letter of credit by KeyBank to secure payments on the 1985A Pool Loan. The Series 2005D Note will be issued pursuant to a Series 2005D Supplemental Master Indenture dated as of August 1, 2005, between the Borrower and the Master Trustee.

In addition, on the date of issuance of the Bonds, the Borrower will issue its Series 2005E Master Note (the “Series 2005E Note”) in favor of Comerica Bank. The Series 2005E Note will secure the Borrower’s obligations to Comerica Bank under a Reimbursement Agreement dated as of January 1, 1997 between Comerica Bank and the Borrower entered into in connection with the issuance of a letter of credit by Comerica Bank to secure payments on the Authority’s Variable Rate Demand Bonds, Series 1997 (Capital Access Designated Pool Program). The Series 2005E Master Note

will be issued pursuant to a Series 2005E Supplemental Master Indenture dated as of August 1, 2005 between the Borrower and the Master Trustee.

The Borrower also has three loans outstanding with Salin Bank and Trust Company (the “Salin Loans”). It is anticipated that shortly after the date of issuance of the Bonds, the Salin Loans will be refinanced and restructured, and Notes will be issued to secure the Salin Loans.

The Series 2005 C-1 Note, the Series 2005 C-2 Note, the Series 2005 D Note, the Series 2005 E Note and any Notes issued to refinance the Salin Loans will be issued on a parity with the Series 2005 Notes, the Bank Notes and any Swap Notes.

Letters of Credit

Series 2005A Letter of Credit. As security for the timely payment of the principal of and interest on the Series 2005A Bonds and the timely payment of the Purchase Price (as defined herein) of Series 2005A Bonds tendered for purchase on demand or mandatory tender as described herein, Comerica Bank, a Michigan banking corporation (the “Series 2005A Bank”), will issue to the Bond Trustee its irrevocable direct-pay letter of credit (the “Series 2005A Letter of Credit”) in an original stated amount equal to the aggregate principal amount of the Series 2005A Bonds outstanding plus 45 days’ interest on the principal amount of the Series 2005A Bonds outstanding, calculated at 10% per annum, pursuant to a Reimbursement and Pledge Agreement between the Series 2005A Bank and the Borrower dated as of August 1, 2005 (the “Series 2005A Reimbursement Agreement”). The Series 2005A Letter of Credit is **not** available to pay any principal of or interest on, or Purchase Price of, any Series 2005B Bonds.

Series 2005B Letter of Credit. As security for the timely payment of the principal of and interest on the Series 2005B Bonds and the timely payment of the Purchase Price of Series 2005B Bonds tendered for purchase on demand or mandatory tender as described herein, National City Bank of Indiana, a national banking association (the “Series 2005B Bank”), will issue to the Bond Trustee its irrevocable direct-pay letter of credit (the “Series 2005B Letter of Credit”) in an original stated amount equal to the aggregate principal amount of the Series 2005B Bonds outstanding plus 45 days’ interest on the principal amount of the Series 2005B Bonds outstanding, calculated at 10% per annum, pursuant to a Reimbursement and Pledge Agreement between the Series 2005B Bank and the Borrower dated as of August 1, 2005 (the “Series 2005B Reimbursement Agreement” and together with the Series 2005A Reimbursement Agreement, the “Reimbursement Agreements”). The Series 2005B Letter of Credit is **not** available to pay any principal of or interest on, or Purchase Price of, any Series 2005A Bonds.

Expiration of Letters of Credit. Each of the Series 2005A Letter of Credit and the Series 2005B Letter of Credit (the Series 2005A Letter of Credit or the Series 2005B Letter of Credit, individually, a “Letter of Credit” and, collectively, the “Letters of Credit”) will expire on August 31, 2010, unless earlier terminated or extended as described herein. Pursuant to the Bond Indenture and each of the Reimbursement Agreements, the Borrower may request an extension of the Letters of Credit issued by the Series 2005A Bank or the Series 2005B Bank (the Series 2005A Bank or the Series 2005B Bank, individually, a “Letter of Credit Bank” and, collectively, the “Letter of Credit Banks”) or deliver to the Bond Trustee substitute liquidity and credit facilities, subject to certain conditions set forth in the Bond Indenture and the Reimbursement Agreements. See “THE LETTERS OF CREDIT” and “BONDHOLDERS’ RISKS—The Letters of Credit.”

Letter of Credit Banks. Certain information about the Series 2005A Bank is included in Appendix F hereto, and certain information about the Series 2005B Bank is included in Appendix G hereto.

Initial Interest Mode

The initial mode of interest on both series of Bonds will be the Daily Mode, during which such series of Bonds will bear interest at the Daily Rate.

The Daily Rate for a series of Bonds in the Daily Mode will be established by Piper Jaffray & Co. (the “Rate-Setting Agent”), not later than 9:30 a.m. New York, New York, time (or, if such day is not a Business Day for such Rate-Setting Agent, the Business Day immediately preceding such Business Day or, if there is no such preceding Business Day in

such Daily Mode, on the Business Day immediately succeeding such Business Day). While the Letters of Credit are in effect, the Daily Rate for each series of Bonds will be the least of (a) 15% per annum, (b) the maximum rate of interest specified in the Liquidity Facility for the Bonds of such series with respect to coverage for the interest component of the Purchase Price of the Bonds of such series (each Letter of Credit specifies 10% per annum), (c) the maximum rate of interest specified in the Credit Facility for the Bonds of such series with respect to coverage for the payment of interest on the Bonds of such series (each Letter of Credit specifies 10% per annum), or (d) the Market Rate for the Bonds of such series, which is the rate that in the sole judgment of the Rate-Setting Agent is necessary to produce a bid for the Bonds of such series on each Thursday equal to 100% of the principal amount thereof plus accrued interest, if any, thereon. The Rate-Setting Agent will provide the Daily Rate for such series of Bonds to owners of such series of Bonds on request. The determination by the Rate-Setting Agent of a Daily Rate for each series of Bonds will be conclusive and binding on the owners of such series of Bonds. See “THE BONDS—Interest—Daily Mode.”

Interest on each series of Bonds at the Daily Rate is payable on the first Business Day of each month, and the record date for such interest payment is the preceding Business Day. Promptly after each Interest Payment Date while a series of Bonds is in a Daily Mode, the Paying Agent will, upon written request, mail to each owner of such series of Bonds a monthly confirmation statement specifying the Daily Rates for that series of Bonds in effect since the preceding Interest Payment Date for such series of Bonds. See “THE BONDS—Payment of Principal and Interest.”

A series of Bonds bearing interest at a Daily Rate will be purchased by J.P. Morgan Trust Company, National Association (the “Tender Agent”), on demand of the owners thereof on any Business Day by delivering (a) notice by telephone, promptly confirmed in writing (which will be irrevocable and effective upon receipt) to the Notice Office of the Tender Agent by 10:30 a.m., New York, New York, time, on such Purchase Date, stating (i) the principal amount of such Bonds (or portion thereof in authorized denominations) to be purchased, and (ii) the certificate number thereof; and (b) the tendered Bonds properly executed for transfer to the Delivery Office of the Tender Agent by 12:00 noon, New York, New York, time on the Purchase Date. Bonds bearing interest at a Daily Rate that satisfy the requirements of the preceding sentence will be purchased by the Tender Agent, at a Purchase Price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon at the Daily Rate to, but not including, the relevant Purchase Date, but solely from and to the extent of proceeds of the remarketing of such Bonds, amounts drawn under the Liquidity Facility for the Bonds of such series or, if such sources are insufficient, payments made by the Borrower under the Series 2005 Notes. See “THE BONDS—Purchase—Optional Tender.”

Bondholders’ Risks

There are risks involved in a purchase of the Bonds. See “BONDHOLDERS’ RISKS.”

Other Information

This introduction is only a brief description, and is qualified by reference to the entire Official Statement. A full review should be made of the entire Official Statement.

Brief descriptions of the Authority, the Borrower, the Bonds, the Loan Agreement, the Series 2005 Notes, the Bank Notes, the Bond Indenture, the Master Indenture, the Letters of Credit and the Reimbursement Agreements follow in this Official Statement. All descriptions herein of the Bonds, the Loan Agreement, the Series 2005 Notes, the Bank Notes, the Bond Indenture, the Master Indenture, the Letters of Credit and the Reimbursement Agreements are only summaries and are qualified in their entirety by reference to each such document. Copies of the proposed forms of the Loan Agreement, the Bond Indenture, the Master Indenture, the Letters of Credit and the Reimbursement Agreements may be obtained from the Underwriters and, following delivery of the Bonds, will be on file at the principal office of J.P. Morgan Trust Company, National Association, as Bond Trustee, at 111 Monument Circle, IN1-0160, Indianapolis, Indiana 46277-0116.

The Bonds, while in the Daily Mode, are exempt from the continuing disclosure requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission. Neither the Authority, the Borrower, either Letter of Credit Bank nor any other person has undertaken in any agreement or contract to provide to the Bond Trustee, the Master Trustee, the Underwriters, any holder of any Bonds, any information repository or depository, the Municipal Securities

Rulemaking Board or any other person, on a periodic basis or otherwise, any financial information, financial statements, operating data or other information or any notice of any event with respect to the Bonds.

Certain capitalized terms used herein are defined in Appendix D hereto.

THE AUTHORITY

The Authority was established on May 15, 2005, as the successor to the IHFFA which was created in 1983 pursuant to the provisions of the Act. The Authority is organized and existing under and by virtue of the Act as a public body politic and corporate, not as an agency of the State, but an independent public instrumentality exercising essential public functions. Under the Act, in addition to financing facilities for private institutions of higher education, the Authority is authorized to make loans to “participating providers” (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation or housing of “health facility property” (as defined in the Act). The Authority may finance health facility property located in Indiana or outside Indiana if the financing also includes a substantial component, as determined by the Authority, for the benefit of a health facility located in Indiana. Further, the participating provider (or an affiliate thereof) in any financing for a health facility outside Indiana must operate a substantial health facility, as determined by the Authority, in Indiana. The Authority has no taxing power.

The Act provides that the Authority shall consist of seven members, four of whom are appointed by the Governor of the State for terms of four years each. Two of the four members appointed by the Governor must be knowledgeable in health care or public finance and investment matters related to health care, and two of the members appointed by the Governor must be knowledgeable in higher education or public finance and investment matters related to higher education. The Authority shall also include among its members (i) the Governor or the Governor’s designee, who shall serve as chairman of the Authority, (ii) the State public finance director or the State public finance director’s designee, and (iii) the State health commissioner or the State health commissioner’s designee. All Authority members must be residents of the State, with not more than three of the four members appointed by the Governor being of the same political party. All Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Authority. The Governor shall appoint an Executive Director to serve at the pleasure of the Governor and to receive such compensation as the members of the Authority shall determine. The Executive Director serves as an *ex officio* secretary of the Authority, administers, manages and directs the employees of the Authority (under the direction of the members of the Authority), approves all accounts and expenses and performs other and additional duties as directed by the members of the Authority.

The Act provides that the State pledges to, and agrees with, the holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged; provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations.

The Authority has undertaken and will continue to undertake other types of financings for the purposes authorized by and in accordance with the procedures set forth in the Act, including loans to other participating providers, equipment financing, small loan and pooled loan programs and project financing for private institutions of higher education. The Bonds neither have nor will have any claim of payment from the security or revenues pledged for the payment of the obligations issued by the Authority in connection with any and all such financings, and no such obligations have or will have any claim of payment from the security or revenues pledged for the payment of the Bonds. Obligations of the Authority outstanding or issued subsequent to the issuance of the Bonds are payable solely from the revenues derived from the programs or from participating providers or private institutions of higher education in connection with which such obligations were issued.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, OR THE STATE OR ANY POLITICAL

SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is hereby made to the Bonds and the Bond Indenture. The discussion herein is qualified by such reference. See Appendix C, "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS" and Appendix D, "DEFINITIONS OF CERTAIN TERMS."

General

The Series 2005A Bonds are being issued in the aggregate principal amount of \$30,000,000, and the Series 2005B Bonds are being issued in the aggregate principal amount of \$20,000,000. The Bonds of each series will mature on January 1, 2035, unless redeemed or otherwise paid prior to final maturity, and will bear interest from the date of their initial delivery or the most recent Interest Payment Date for such series of Bonds to which interest has been paid or duly provided for at the rates per annum determined as described herein. Both series of Bonds will be issued in the Daily Mode. Thereafter, the Interest Mode for each series of Bonds may be converted to a Weekly Mode, a Flexible Mode, a Semiannual Mode, a Long Mode or the Fixed Mode, as described below.

The Bonds of each series will be issuable in fully registered form only, without coupons, in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof when in the Daily Mode, Weekly Mode or Flexible Mode and in the denominations of \$5,000 and any integral multiple thereof if issued during a Semiannual Mode, a Long Mode or the Fixed Mode.

The Interest Payment Dates for interest accrued on each series of Bonds during the Daily Mode or Weekly Mode for the Bonds of such series will be the first Business Day of each month, and the Regular Record Date therefor will be the immediately preceding Business Day. The Interest Payment Dates for interest accrued on each series of Bonds during any Flexible Mode will be the first Business Day following each Rate Period for the Bonds of such series, and the Regular Record Date therefor will be the last Business Day of the Rate Period for the Bonds of such series. The Interest Payment Dates for interest accrued on each series of Bonds during any Semiannual Mode, Long Mode or Fixed Mode will be each January 1 or July 1, and the Regular Record Date therefor will be the 15th day of the preceding calendar month.

Payment of Principal and Interest

The principal of and premium, if any, on the Bonds are payable to the registered holders thereof upon presentation and surrender of the Bonds at the principal corporate trust operations office of J.P. Morgan Trust Company, National Association, as paying agent (the "Paying Agent"), in Indianapolis, Indiana.

Interest due on a series of Bonds on each Interest Payment Date for such series of Bonds will, except as described below, be paid to the person who is the registered holder thereof on the Regular Record Date therefor: (i) by check or draft mailed on such Interest Payment Date to such holder's address appearing on the Bond Register or at such other address as may be furnished by the holder to the Bond Registrar and Paying Agent on or prior to such Regular Record Date; (ii) at the option of any holder of at least \$1,000,000 in principal amount of Bonds (and any owner of Bonds in the Flexible Mode), by wire transfer on such Interest Payment Date to any account in the continental United States of America designated by written request to the Bond Registrar and Paying Agent at least one Business Day prior to such Regular Record Date; (iii) in such other fashion as is agreed upon between the holder and the Paying Agent; or (iv) any interest or principal due on any Bond registered in the name of the Securities Depository will be payable in immediately

available funds delivered to the principal corporate trust operations office of the Bond Trustee and paid to the Securities Depository.

Interest

General. Both series of Bonds will be issued in the Daily Mode, during which they will bear interest at rates determined daily, and payable on the first Business Day of each calendar month, as described below. Thereafter, the Interest Mode of each series of Bonds may be converted to a Weekly Mode, a Flexible Mode, a Semiannual Mode, a Long Mode or the Fixed Mode, as elected by the Borrower, following which the Bonds of such series will bear interest at the corresponding Weekly Rate, Flexible Rate, Semiannual Rate, Long Rate or Fixed Rate described below. Any such conversion will be subject to receipt of an opinion of nationally recognized bond counsel to the effect that such conversion will not adversely affect the exclusion from gross income of the owner thereof for federal income tax purposes of interest on any Bond and that such conversion is authorized by applicable State law. Such conversion will result in the mandatory tender of the Bonds of such series for purchase as described below under “Purchase—Mandatory Tender.”

When Bonds of either series bear interest at a Daily Rate, Weekly Rate or Flexible Rate, interest will be computed on the basis of a 365-day or 366-day year, as the case may be, for actual days elapsed. When Bonds of either series bear interest at a Semiannual Rate, Long Rate or Fixed Rate, interest will be computed on the basis of a year of 360 days, based upon twelve 30-day months.

All Bonds of the same series must be in the same Interest Mode, share the same Rate Period and bear the same interest rate. However, the Bonds of each different series need not be in the same Interest Mode, share the same Rate Period or bear the same interest rate.

Daily Mode. While the Bonds of either series are in a Daily Mode, such series of Bonds will bear interest at the Daily Rate, which is the least of (a) 15% per annum, (b) the maximum rate, if any, specified in the Liquidity Facility, if any, with respect to coverage for the interest component of the Purchase Price (each Letter of Credit specifies 10% per annum), (c) the maximum rate of interest specified in the Credit Facility, if any, with respect to coverage for the payment of interest (each Letter of Credit specifies 10% per annum), or (d) the Market Rate for such Rate Period determined by the Rate-Setting Agent on such day by 9:30 a.m., New York, New York, time, or, if such day is not a Business Day for the Rate-Setting Agent on the immediately preceding Business Day for the Rate-Setting Agent or, if there is no such preceding Business Day in such Daily Mode, on the next succeeding such Business Day.

Weekly Mode. While the Bonds of either series are in a Weekly Mode, such series of Bonds will bear interest at the Weekly Rate for each Rate Period determined as described below. The Weekly Rate for a series of Bonds for each Rate Period for such series of Bonds is the least of (a) 15% per annum, (b) the maximum rate of interest specified in the Liquidity Facility for such series of Bonds with respect to coverage for the interest component of the Purchase Price of the Bonds of such series (each Letter of Credit specifies 10% per annum), (c) the maximum rate of interest specified in the Credit Facility for such series of Bonds with respect to coverage for the payment of interest on such series of Bonds (each Letter of Credit specifies 10% per annum), and (d) the Market Rate for such series of Bonds determined by the Rate-Setting Agent for the Bonds of such series on any preceding day. Such Rate-Setting Agent is required by the Bond Indenture to determine such rate by 2:00 p.m., New York, New York, time, on the business day for such Rate-Setting Agent immediately preceding the commencement of such Weekly Mode and on each subsequent Wednesday (or, if such day is not a business day for such Rate-Setting Agent, the next preceding such business day) during such Weekly Mode. Each Rate Period for the Bonds of either series during a Weekly Mode for the Bonds of such series commences on the first day of such Weekly Mode or on the Thursday immediately succeeding the immediately preceding Rate Period during such Weekly Mode and ends on the immediately succeeding Wednesday.

Flexible Mode. While the Bonds of either series are in a Flexible Mode, Bonds of such series will bear interest at the Flexible Rate for each Rate Period determined as described below. The Flexible Rate for a series of Bonds for any Rate Period for such series of Bonds is the least of (a) 15% per annum, (b) the maximum rate of interest specified in the Liquidity Facility for such series of Bonds with respect to coverage for the interest component of the Purchase Price of such series of Bonds, (c) the maximum rate of interest specified in the Credit Facility for such series of Bonds with respect to coverage for the payment of interest on such series of Bonds, and (d) the Market Rate for such series of Bonds

for such Rate Period determined by the Rate-Setting Agent for such series of Bonds by 12:30 p.m., New York, New York, time, on the first business day for such Rate-Setting Agent in such Rate Period. The duration of each Rate Period for the Bonds of either series in a Flexible Mode may be from seven to 270 days and will be determined by the Borrower as described below under “Determination of Rate Periods.”

Semiannual Mode. While the Bonds of either series are in a Semiannual Mode, Bonds of such series will bear interest at the Semiannual Rate for a Rate Period for such series of Bonds, determined as described below. The Semiannual Rate for either series of Bonds for any Rate Period for such series of Bonds is the least of (a) 15% per annum, (b) the maximum rate of interest specified in the Liquidity Facility, if any, for such series of Bonds with respect to coverage for the interest component of the Purchase Price of such series of Bonds, (c) the maximum rate of interest specified in the Credit Facility, if any, for such series of Bonds with respect to coverage for the payment of interest on such series of Bonds, and (d) the Market Rate for such series of Bonds for such Rate Period determined by the Rate-Setting Agent for such series of Bonds on any day designated by it which is not more than 35 days preceding nor later than the last business day for such Rate-Setting Agent preceding such Rate Period. Each Rate Period for a series of Bonds during a Semiannual Mode is the six-month or shorter period which begins on the first day of such Semiannual Mode or any succeeding January 1 or July 1 and ends on the next succeeding June 30 or December 31. So long as a series of Bonds is rated by the Rating Service, such series of Bonds will not be converted to the Semiannual Mode unless a Credit Facility is in place which contains 194 days of interest coverage.

Long Mode. While the Bonds of either series are in a Long Mode, Bonds of such series will bear interest at the Long Rate for each Rate Period, determined in the manner described below. The Long Rate for a series of Bonds for any Rate Period for such series of Bonds is the least of (a) 15% per annum, (b) the maximum rate of interest specified in the Liquidity Facility, if any, for such series of Bonds with respect to coverage for the interest component of the Purchase Price of such series of Bonds, (c) the maximum rate of interest specified in the Credit Facility, if any, for such series of Bonds with respect to coverage for the payment of interest on such series of Bonds, and (d) the Market Rate for such series of Bonds for such Rate Period determined by the Rate-Setting Agent for such series of Bonds on any date designated by it which is not more than 35 days preceding nor later than the last business day for such Rate-Setting Agent preceding such Rate Period. The duration of the Rate Periods in each Long Mode will be determined by the Borrower as described below under “Determination of Rate Periods.”

Fixed Mode. While the Bonds of either series are in the Fixed Mode, such series of Bonds will bear interest at the Fixed Rate therefor. The Fixed Rate for a Bond of either series is the least of (a) 15% per annum, (b) the Market Rate for such series of Bonds during the Fixed Mode therefor, determined by the Rate-Setting Agent for the Bonds of such series on a date designated by it which is not more than 35 days preceding nor later than the last business day for such Rate-Setting Agent preceding the Fixed Mode for such series of Bonds. The Fixed Mode for the Bonds of either series, once commenced, will extend to the final maturity of such series of Bonds.

Market Rate Determination. The Rate-Setting Agent for the Bonds of each series is required to make each determination of the Market Rate for the Bonds of such series by determining the minimum interest rate necessary to be borne by the Bonds of such series for the relevant Rate Period to produce a bid for the Bonds of such series on the Rate Adjustment Date for such series of Bonds equal to 100% of the principal amount thereof plus accrued interest from the most recent Interest Payment Date for such series of Bonds.

If for any reason no Rate-Setting Agent for the Bonds of either series has been appointed under the Bond Indenture on any Rate Determination Date for such series of Bonds, the Rate-Setting Agent for the Bonds of either series fails to determine the Market Rate on any Rate Determination Date for such series of Bonds, or any Market Rate for the Bonds of either series determined by the Rate-Setting Agent for such series of Bonds on any Rate Determination Date for such series of Bonds is determined by a court of competent jurisdiction to be invalid or unenforceable, the Market Rate for the Bonds of such series to be determined on such Rate Determination Date will be determined as follows: if the Rate Period during which such Market Rate is to be in effect is greater than one-half year, such Market Rate for such Rate Period will be the percentage of the “11-Bond Municipal Bond Index” most recently published by *The Bond Buyer* or any successor publication set forth below under the longest period specified which does not exceed the duration of such Rate Period:

Rate Period equal to or longer than (in years):

<u>15</u>	<u>13</u>	<u>10</u>	<u>7</u>	<u>5</u>	<u>2</u>	<u>½</u>
100%	97%	93%	86%	80%	70%	65%

If the Rate Period during which such Market Rate is to be in effect is equal to or less than one-half year, such Market Rate for such Rate Period will be 110% of the “Tax-Exempt Prime Commercial Paper Rate (30 Days)” most recently published by *The Bond Buyer* or any successor publication. If either of such indices ceases to be published, the most comparable published index designated by the Rate-Setting Agent for the Bonds of such series (or, if there is no Rate-Setting Agent for the Bonds of such series, by the Rate-Setting Agent for the Bonds of such series) is required to be used for such Market Rate determination.

Determination of Interest Modes. The Borrower is permitted to designate an Interest Mode for the Bonds of each series, and, in the case of a Flexible Mode or Long Mode, to designate the duration of the initial Rate Period thereof or of a successive Rate Period in the Long Mode, by delivering notice to the Bond Trustee and certain other persons not less than 35 days prior to the Rate Adjustment Date applicable to the new Rate Period in the designated Interest Mode. The first day of any such Interest Mode so elected by the Borrower is required to be an Interest Payment Date for the Bonds of such series for interest accrued during any Daily Mode, Weekly Mode, Flexible Mode or Semiannual Mode for such series of Bonds then in effect and, if a Long Mode for such series of Bonds is then in effect, the last Interest Payment Date for the Rate Period for such series of Bonds then in effect and, if the Interest Mode for such series of Bonds then in effect is a Flexible Mode and the Rate Period for the Bonds of such series then in effect ends prior to such first day, the first Business Day of any month.

The Interest Mode, or the Rate Period during any Long Mode, of the Bonds of each series will automatically change in accordance with any such notice from the Borrower on the date specified in such notice, but no such change may be made unless (1) such notice is accompanied by, and in addition there is delivered to the Bond Trustee on the first day of such Interest Mode or Rate Period, an opinion of nationally recognized bond counsel to the effect that such change will not adversely affect the exclusion from gross income of interest on any Bonds for federal income tax purposes and that such change is authorized by applicable State law, (2) if the Interest Mode to become effective is a Flexible Mode or a Long Mode, the duration of the first Rate Period is in accordance with the terms of the Bond Indenture, (3) all Bonds of such series are converted to the same Interest Mode or the same new Rate Period in a Long Mode, (4) if the Interest Mode to become effective with respect to such series of Bonds is the Fixed Mode, then the proceeds of the remarketing are sufficient to pay in full the Purchase Price of all Bonds of such series, and (5) if a Credit Facility or Liquidity Facility for such series of Bonds will be provided for the Interest Mode or Rate Period to become effective, the Borrower provides the Bond Trustee with evidence that the stated amount of such Credit Facility and Liquidity Facility meets the requirements of the Bond Indenture.

Determination of Rate Periods. If the Borrower, in establishing a Flexible Mode or a Long Mode, or a Rate Period in the Long Mode with a duration different than that of the immediately preceding Rate Period, for the Bonds of either series, designates the initial Rate Period for such Flexible Mode or Long Mode, or a new Rate Period for a Long Mode, such initial or new Rate Period will extend through the last day of such period. The duration of each successive Rate Period during such Flexible Mode and, if no designation is made for the initial Rate Period during a Flexible Mode or Long Mode, the duration of the initial Rate Period thereof will be the period determined by the Rate-Setting Agent for such series of Bonds on the Rate Determination Date for such Rate Period which in its judgment will result in the lowest interest cost on such series of Bonds over the ensuing 180 days (in the case of a Flexible Mode) or five years (in the case of Long Mode), subject to certain limitations in the Bond Indenture. If neither the Borrower nor the Rate-Setting Agent for such series of Bonds establishes the duration of any Rate Period during a Flexible Mode or of the initial Rate Period during a Long Mode on or before the first Rate Determination Date therefor, the duration of such Rate Period will be the lesser of (1) 30 days (if during a Flexible Mode) or the period ending on the day before the next succeeding January 1 (if during a Long Mode) or (2) the maximum period permitted by the Bond Indenture.

Each Rate Period for the Bonds of either series during a Flexible Mode will commence on the first day of such Interest Mode or on the day immediately succeeding the immediately preceding Rate Period for the Bonds of such series during such Flexible Mode, will end on a day immediately preceding a Business Day which occurs on or before the next redemption date or Maturity of such series of Bonds then known, and will be not less than seven nor more than 270 days

in length. If a Credit Facility or Liquidity Facility is in effect for such series of Bonds, such Rate Period may not exceed the greatest number of days' interest, at the maximum per annum rate of interest which may be borne by such series of Bonds during such Rate Period, which may be drawn or claimed under such Credit Facility or Liquidity Facility, less the sum of (1) the greatest number of days which may transpire after a draw or claim thereunder to pay interest on such series of Bonds without reinstatement of such amount, plus (2) five days. However, the Rate Period for such series of Bonds may exceed such amount to the extent that there is a Credit Facility for such series of Bonds which permits draws to be made thereunder at various times so that sufficient Eligible Monies will be available on each Interest Payment Date for the Bonds of such series for the payment of accrued interest on such series of Bonds. So long as either series of Bonds is rated by the Rating Service, the Borrower will not convert such series of Bonds to the Flexible Mode unless a Credit Facility for such series of Bonds is in place which contains at least 281 days of interest coverage.

Each Rate Period for the Bonds of either series during a Long Mode will commence on the first day of such Long Mode or on the day after the immediately preceding Rate Period for such series of Bonds during such Long Mode. The initial Rate Period of each Long Mode will expire on the day immediately preceding any January 1. Each successive Rate Period during such Long Mode will expire on the day before the next succeeding January 1 which occurs during the same number of 12 month periods after the first day of such Rate Period as the number of 12 month periods or portions thereof during the initial Rate Period in such Long Mode unless the duration of a succeeding Rate Period is changed pursuant to the Bond Indenture. So long as either series of Bonds is rated by the Rating Service, such series of Bonds will not be converted to the Long Mode unless a Credit Facility for such series of Bonds is in place which contains 194 days of interest coverage.

Notices to Bondholders. The Bond Trustee is required to give the holders of Bonds of either series not less than 30 days written notice of the effective date of any change in Interest Mode or in the Rate Period of any Long Mode for such series of Bonds, in each case to be accompanied by a copy of the opinion of counsel required to be given in connection with the change as described above.

The holders of Bonds of either series may ascertain the current Daily Rate, Weekly Rate or Flexible Rate on such series of Bonds by contacting the Rate-Setting Agent for such series of Bonds and may ascertain the current Semiannual Rate, Long Rate or Fixed Rate on either series of Bonds by contacting the Bond Trustee. The Paying Agent for interest accrued on either series of Bonds in a Daily Rate or a Weekly Mode is required to mail to each holder of such series of Bonds as of the relevant record date, upon request of such Bondholder, a monthly statement with each interest payment specifying the interest rates in effect since the preceding Interest Payment Date for the Bonds of such series. The Bond Trustee will mail notice of each Semiannual Rate, Long Rate or Fixed Rate on Bonds of either series in to each holder of such series of Bonds promptly after the Rate Determination Date on which such rate was determined.

Effect of Determinations. Each designation of an Interest Mode, each determination of the duration of a Rate Period, and each determination of an Adjusted Interest Rate or the Fixed Rate will be conclusive and binding upon the Bondholders, the Bond Trustee, the Paying Agent, the Authority, the Borrower each Credit Enhancer, each Bank and certain other persons, and neither the Borrower nor the Rate-Setting Agent for the Bonds of either series will have any liability to any Bondholder or other such person for any such determination, whether due to any error in judgment, failure to consider any information, opinion or resource, or otherwise.

If any change in the Interest Mode, or in the Rate Period for any Long Mode, on the Bonds of either series designated by the Borrower may not be effected because of any failure to satisfy the conditions to such change contained in the Bond Indenture, the Interest Mode for the Bonds of such series (and the Rate Period for such Long Mode) then in effect will remain unchanged and, except for any tender required by the provisions described below under "Purchase—Mandatory Tender," the Bondholders will be restored to their original positions.

Purchase

Optional Tender. Each holder of Bonds will have the right to have its Bonds (or portions thereof in authorized denominations) purchased by the Tender Agent during the Interest Modes, on the Purchase Dates, and with the prior notice and delivery described below, at a Purchase Price equal to the principal amount thereof plus accrued interest, but solely from and to the extent of proceeds of the remarketing of such Bonds, amounts drawn under the applicable Liquidity Facility for the series of Bonds or, if such sources are insufficient, payments made by the Borrower under the

applicable Series 2005 Notes. Notwithstanding the foregoing, no such purchase right will pertain to Bonds held by any Bank or by the Trustee, or the Tender Agent, or their agents, for the benefit of such Bank in connection with a Liquidity Drawing ("Bank Bonds") or Bonds registered in the name of the Borrower or the Authority. Any such Bonds for which notice of optional tender has been received will be deemed to have been tendered and sold on the designated purchase date. See "Untendered Bonds."

Payment for Bonds so purchased is required to be made in immediately available funds by 3:00 p.m., New York, New York, time, on the Purchase Date specified by the holder for purchase if the notice and tender requirements described below have been strictly complied with. Each such Bond must be endorsed in blank or accompanied by an instrument of transfer satisfactory to the Tender Agent executed in blank by the holder. The Tender Agent may refuse to accept delivery of any Bond for which a proper endorsement or instrument of transfer has not been provided.

DAILY MODE. During a Daily Mode, any Bond may be tendered to the Tender Agent for purchase as described above on any Business Day by delivering:

- (1) notice by telephone and promptly confirmed in writing (which shall be irrevocable and effective upon receipt) to the Rate-Setting Agent by 10:30 a.m., New York, New York, time, on such Purchase Date, stating the principal amount of such Bonds (or portions thereof) to be purchased, and the number thereof, and
- (2) such Bonds to the Tender Agent by 12:00 Noon, New York, New York, time on the Purchase Date.

WEEKLY MODE. While the Bonds of either series are in a Weekly Mode, any Bond of such series may be tendered to the Tender Agent for purchase as described above on any Business Day by delivering:

- (1) a telecopied, telexed or other written notice (which will be irrevocable and effective upon receipt) to the Tender Agent by 3:00 p.m., New York, New York, time, on a Business Day, stating the principal amount of such Bond (or portion thereof) to be purchased, the certificate number thereof and the Purchase Date, which must be at least seven days after the notice is delivered; and
- (2) such Bond to the Tender Agent by 12:00 noon, New York, New York, time, on the Purchase Date.

SEMIANNUAL MODE AND LONG MODE. While the Bonds of either series are in a Semiannual Mode or Long Mode, any Bond of such series may be tendered to the Tender Agent for purchase on any Rate Adjustment Date for such series of Bonds by delivering:

- (1) a written notice (which will be irrevocable and effective upon receipt) to the Tender Agent not earlier than 30 days prior to or later than 3:00 p.m., New York, New York, time, on a Business Day at least 15 days prior to such Purchase Date, stating the principal amount of such Bond (or portion thereof) to be purchased, the certificate number thereof and the Purchase Date; and
- (2) such Bond (or portion thereof) to the Tender Agent at the time of delivery of such notice.

Any Bondholder which identifies itself as an investment company registered under the Investment Company Act of 1940, as amended, will be deemed to have satisfied such notice requirements if it has delivered such notice to the Bond Trustee by the relevant time specified above and will be deemed to have satisfied any such requirement for the delivery of Bonds of any series during a Semiannual Mode or Long Mode for such series of Bonds if the Bond Trustee has received with such notice the irrevocable written election of such Holder so to present such Bonds (or portions thereof) for purchase and has received such Bonds or portions thereof on the Purchase Date for such Bonds.

Mandatory Tender. Each holder of Bonds of either series (other than the Borrower, the Authority or any Bank as the holder of Bank Bonds) will be required to tender, and in any event will be deemed to have tendered, such Bonds to the Tender Agent for purchase at a Purchase Price equal to the principal amount thereof plus accrued interest, but solely from and to the extent of proceeds of the remarketing of such Bonds, amounts drawn under the applicable Liquidity Facility for such series of Bonds or, if such sources are insufficient, payments made by the Borrower under applicable Series 2005 Note, on:

- (1) **CREDIT OR LIQUIDITY FACILITY RELEASES:** the fifth Business Day prior to (a) the date on which the Credit Facility for such series of Bonds expires or terminates in accordance with its terms, is released at the option of the Borrower or is replaced with an alternate Credit Facility as provided in the Bond Indenture, or (b) the date on which the Liquidity Facility for such series of Bonds expires or terminates in accordance with its terms, is released at the option of the Borrower or is replaced with an alternate Liquidity Facility as provided in the Bond Indenture;
- (2) **INTEREST MODE CHANGES:** the first Business Day of each new Interest Mode for such series of Bonds designated by the Borrower, in each case whether or not such Interest Mode is effected; or
- (3) **RATE ADJUSTMENT DATES:** (a) each Rate Adjustment Date for such series of Bonds during a Flexible Mode for such series of Bonds, and (b) each Rate Adjustment Date for such series of Bonds for a Rate Period during a Long Mode for such series of Bonds when such Rate Period is of a different duration than the immediately preceding Rate Period in such Long Mode.

The Bond Trustee is required to give notice to each holder of such Bonds by mail, first-class postage prepaid, not more than 60 nor less than 30 days prior to any such mandatory tender date (unless tender is required due to the occurrence of a Rate Adjustment Date during a Flexible Mode, in which case, notice is not required to be given).

Untendered Bonds. Any Bond (or portion thereof) (i) for which notice of optional tender has been given in accordance with the provisions of the Bond Indenture described above, but not tendered for purchase by the required time, or (ii) which is required to be tendered as described under “Mandatory Tender” above, will be deemed to have been tendered and sold on the designated Purchase Date and, upon deposit in the Purchase Fund held under the Bond Indenture of an amount sufficient to pay the Purchase Price of such Bond on such Purchase Date, the holder of such Bond will not be entitled to any payment (including any interest accrued subsequent to such date) in respect thereof other than the Purchase Price for such Bond and such Bond will no longer be entitled to the benefit of the Bond Indenture, except for the purpose of payment of such Purchase Price.

Redemption

Optional Redemption. The Bonds of either series are subject to redemption prior to their stated maturity at the option of the Borrower in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus interest, if any, accrued from the most recent Interest Payment Date of such series of Bonds, on (i) any Business Day (in the case of redemption of all such series of Bonds, and otherwise on the first Business Day of each month) during a Daily Mode or a Weekly Mode for such series of Bonds, (ii) the first day of each Rate Period during a Flexible Mode, Semiannual Mode or Long Mode for such series of Bonds, (iii) the first day of the Fixed Mode for such series of Bonds or, or (iv) any date, in the case of Bank Bonds.

If the redemption date for any such redemption occurs while a Credit Facility for the Bonds of such series is in effect and the Credit Enhancer which issued such Credit Facility is holding any Bank Bonds at that time, the Bond Trustee will select any Bank Bonds first for such redemption.

During a Long Mode or a Fixed Mode for the Bonds of either series, the Bonds of such series will also be subject to redemption prior to their stated maturity in whole or in part on any date, at the option of the Borrower during any Rate Period for such series of Bonds described in the following table, if such redemption date occurs on or after the anniversary of the first day of such Rate Period specified in such table, at a redemption price initially equal to the percentage of the principal amount thereof specified for such Rate Period under Initial Redemption Price, declining by $\frac{1}{2}$ of 1% of principal amount on each subsequent anniversary of the first permitted redemption date (but not below 100%), plus interest, if any, accrued from the most recent Interest Payment Date for such series of Bonds to the redemption date:

Rate Period		Anniversary (First Call Date)	Initial Redemption Price
Equal to or Greater Than	But Less Than		
13 years	30 years	8 years	102%
10 years	13 years	5 years	102
7 years	10 years	3 years	101½
4 years	7 years	2 years	101
2 years	4 years	1 year	100½
1 year	2 years	1 year	100

While the Bonds of either series are in a Long Mode or a Fixed Mode, the Bonds of such series will also be subject to redemption prior to their maturity in whole or in part on any date, at the option of the Borrower during any Rate Period for such series of Bonds equal to or greater than eleven months but less than one year in length, if such redemption date occurs subsequent to the first six months of such Rate Period, at a redemption price equal to 100% of the principal amount thereof plus interest, if any, accrued from the most recent Interest Payment Date of the Bonds of such series to the redemption date.

Notwithstanding the foregoing, upon the conversion of the Bonds of either series to a Fixed Mode, the Rate-Setting Agent for such series of Bonds may determine different redemption provisions for such Bonds, including any requirement for a redemption premium, in order for it to determine the lowest fixed interest rate for such Bonds upon receipt by the Bond Trustee and the Borrower of an opinion of nationally recognized bond counsel stating that the determination of different redemption provisions is permitted under the Act and the Bond Indenture and will not impair the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Mandatory Sinking Fund Redemption. The Authority will redeem Bonds of each series on (i) the first Business Day on or after each January 1 of the years specified below during any Daily Mode, Weekly Mode or Flexible Mode for the Bonds of such series and (ii) each January 1 of the years specified below during any Semiannual Mode, Long Mode or Fixed Mode for the Bonds of such series, in each case in the aggregate principal amount set forth opposite such year, at a redemption price equal to 100% of the principal amount thereof plus interest, if any, accrued thereon from the most recent Interest Payment Date for such series of Bonds to the redemption date:

<u>Year</u>	<u>Principal Amount of Series 2005A Bonds</u>	<u>Principal Amount of Series 2005B Bonds</u>
2007	\$ 185,000	\$ 120,000
2008	480,000	320,000
2009	490,000	330,000
2010	515,000	340,000
2011	530,000	355,000
2012	550,000	365,000
2013	570,000	380,000
2014	595,000	395,000
2015	615,000	410,000
2016	635,000	420,000
2017	655,000	435,000
2018	680,000	450,000
2019	705,000	470,000
2020	730,000	490,000
2021	755,000	505,000
2022	785,000	525,000
2023	815,000	540,000
2024	845,000	560,000
2025	870,000	580,000
2026	1,525,000	1,020,000
2027	1,585,000	1,055,000
2028	1,640,000	1,090,000
2029	1,700,000	1,130,000
2030	1,760,000	1,170,000
2031	1,825,000	1,215,000
2032	1,885,000	1,260,000
2033	1,955,000	1,305,000
2034	2,030,000	1,355,000
2035 ⁽¹⁾	2,090,000	1,410,000

⁽¹⁾ Maturity Date

The principal amount of a series of Bonds so required to be redeemed on any date may be reduced, at the option of the Borrower by the principal amount of Bonds of such series (i) surrendered uncanceled and in transferable form by the Borrower to the Bond Registrar no less than 30 days prior to such redemption date or (ii) redeemed not less than 30 days prior to such redemption date as described under “Optional Redemption” or “Extraordinary Optional Redemption.”

In order to minimize the rate or rates of interest to be borne by Bonds of either series to be remarketed to the Fixed Mode, the Authority, at the request of the Borrower, may, at the time notice is given of a conversion to the Fixed Mode, have the Rate-Setting Agent for such series of Bonds designate serial principal maturities in lieu of or in addition to the mandatory redemption schedule for the Bonds of such series bearing interest in the Fixed Mode, subject to the following conditions: (a) serial maturities must be the next succeeding dates on which such Bonds of such series are subject to scheduled mandatory redemption as described above but only to the extent that Bonds have not been selected by the Bond Trustee for redemption or tendered to the Bond Trustee for cancellation in lieu of redemption or already selected for conversion to a serial principal maturity on such date; (b) the combined serial principal maturities and mandatory sinking fund schedule must provide for the retirement of Bonds of such series in principal amounts and at such dates as specified in the schedule of sinking fund installments described above; (c) all Bonds of such series converted to the Fixed Mode with a serial principal maturity must state on their face their serial principal maturity date; and (d) delivery to the Bond Trustee of an opinion of nationally recognized bond counsel that the designation of such serial principal maturities will not have an adverse effect on the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, which opinion must be confirmed in writing on the date the Bonds of such series are converted to bear interest in the Fixed Mode.

Extraordinary Optional Redemption. While the Bonds of either series are in a Semiannual Mode, Flexible Mode, Long Mode or Fixed Mode, the Bonds of such series are subject to extraordinary redemption at any time by the Authority, at the direction of the Borrower on satisfaction of certain conditions specified in the Bond Indenture, in the event of condemnation, damage or destruction of any properties of the Borrower, in whole or in part in an amount not in excess of the Net Proceeds of the insurance or condemnation award, at a price equal to 100% of the principal amount thereof, plus interest, if any, accrued from the most recent Interest Payment Date for such series of Bonds to the redemption date, if such Net Proceeds exceed \$3,000,000 and the Borrower has elected not to use such Net Proceeds to repair, rebuild or replace such properties.

Redemption Procedures. Notice of any redemption of Bonds of either series will be given (i) during a Daily Mode or a Weekly Mode, not less than 15 days, and (ii) during any other Interest Period, not less than 30 days, and in each case not more than 60 days, prior to the date fixed for redemption. Such notice will be mailed by first-class mail to the registered owners of the Bonds to be redeemed as provided in the Bond Indenture, but failure to mail any such notice or any defect in any such notice or the mailing thereof, as it affects any particular Bond, will not affect the validity of the proceedings for such redemption of any other Bond. If funds are deposited (as more fully described in the Bond Indenture) with the Paying Agent sufficient to pay the redemption price of any Bonds, together with interest accrued to the redemption date, as provided in and limited by the terms of the Bond Indenture, interest on such Bonds will cease to accrue on the redemption date, and thereafter such Bonds will be payable as to principal, interest and premium only out of the funds so deposited.

No redemption of less than all of the Bonds of either series at the time Outstanding will be made unless the aggregate principal amount of Bonds of such series to be redeemed is equal to \$100,000 or any integral multiple of \$5,000 in excess thereof, provided that all such Bonds to be redeemed are in authorized denominations for the Interest Mode then in effect for such Bonds. In the event of a partial redemption of Bonds of either series, the Bonds or portion thereof to be redeemed will be selected by lot in a method determined by the Bond Trustee. However, Bank Bonds will be selected prior to any other Bonds.

In lieu of redeeming Bonds of either series, the Bond Trustee may, at the request of the Borrower and with the consent to the Bank which issued the Liquidity Facility for such series of Bonds and the Credit Enhancer which issued the Credit Facility for such series of Bonds, use such funds otherwise available under the Bond Indenture for redemption of such series of Bonds (which funds, if a Credit Facility is then in effect for such series of Bonds, must constitute Eligible Moneys) to purchase Bonds of such series in the open market at a price not exceeding the redemption price then applicable under the Bond Indenture, such Bonds to be delivered to the Bond Registrar for cancellation. In the case of any such redemption or purchase of Bonds, the Authority will receive credit against its required debt service deposits.

If the redemption date for the Bonds of either series for any redemption described under the caption “Optional Redemption” or “Extraordinary Optional Redemption” occurs while a Credit Facility for such series of Bonds is in effect, such redemption will be effected only from and to the extent of Eligible Moneys held for such purpose by the Bond Trustee, including a draw or advance permitted under such Credit Facility for such purpose.

Transfer and Exchange

Bonds of either series may be surrendered for registration of transfer or for exchange to the Bond Registrar or Tender Agent, duly endorsed, or accompanied by a satisfactory written instrument of transfer executed by the holder or his attorney duly authorized in writing. The Authority is required to execute, and the Bond Registrar or Tender Agent is required to authenticate and make available for pick up at their respective Delivery Offices by and in the name of the designated transferee, one or more new fully registered Bonds of such series, in authorized denominations and of like aggregate principal amount for the Bonds of such series so surrendered. The Bond Registrar and Tender Agent are not required to transfer or exchange any Bond at any time following the mailing of a notice of redemption of Bonds of such series. No charge will be imposed in connection with any transfer or exchange, except for taxes or governmental charges related thereto.

The following table summarizes the terms for each Interest Mode for the Bonds.

SUMMARY OF INTEREST MODES

	<u>Daily Mode</u>	<u>Weekly Mode</u>	<u>Flexible Mode</u>
Interest Payment Date And Calculation Method	First Business Day of each calendar month; on actual days, over 365/366-day year	First Business Day of each calendar month; on actual days, over 365/366-day year	First Business Day following each Rate Period; on actual days, over 365/366-day year
Record Date	Business Day preceding Interest Payment Date	Business Day preceding Interest Payment Date	Last Business Day of Rate Period
Rate Determination Date	On such day or if such day is not a Business Day for the Rate-Selling Agent on the immediately preceding Business Day for the Rate-Setting Agent or, if there is no such preceding Business Day in such Daily Mode, on the next succeeding such Business Day (by 9:30 a.m., New York, New York, time)	The Business Day for the Rate-Setting Agent immediately preceding the commencement of such Weekly Mode, and on each subsequent Wednesday thereafter or if not a Business Day for the Rate-Setting Agent, on the next such Business Day (by 2:00 p.m., New York, New York, time)	The first Business Day for the Rate-Setting Agent in such Rate Period (by 12:30 p.m. New York, New York, time) which may be from 7 to 270 days
Rate Adjustment Date	Daily	Each Thursday	The first day in each Rate Period
Notice of Interest Rates	Upon request, Paying Agent to mail monthly confirmation statement of interest due; rate may be obtained from Rate-Setting Agent	Upon request, Paying Agent to mail monthly confirmation statement of interest due; rate may be obtained from Rate-Setting Agent	Rate may be obtained from Rate-Setting Agent
Optional Tender Date	Any Business Day	Any Business Day at least seven days after delivery of notice	None
Notice of Optional Tender	Irrevocable notice of tender by telephone, promptly confirmed in writing, to the Rate-Setting Agent not later than 10:30 a.m., New York, New York, time, on the Purchase Date, and delivery of the Bonds to the Tender Agent by 12:00 Noon, New York, New York, time, on the Purchase Date.	Irrevocable written notice of tender to the Tender Agent not later than 3:00 p.m., New York, New York, time, on any Business Day seven days prior to the Purchase Date, and delivery of the Bonds to the Tender Agent by 12:00 Noon, New York, New York, time, on the Purchase Date.	None
Purchase Date for Mandatory Tender Upon Change in Interest Mode or Rate Period	The first Business Day of each new Interest Mode, in each case whether or not such new Interest Mode is effected.	The first Business Day of each new Interest Mode, in each case whether or not such new Interest Mode is effected.	Each Rate Adjustment Date during the Flexible Mode and the first Business Day of each new Interest Mode, in each case whether or not such Interest Mode is effected.
Notice of Change in Interest Mode	Bond Trustee to mail notice to Bondholder by 30 th preceding day	Bond Trustee to mail notice to Bondholder by 30 th preceding day.	Bond Trustee to mail notice to Bondholder by 30 th preceding day

The following table summarizes the terms for each Interest Mode for the Bonds.

SUMMARY OF INTEREST MODES

	<u>Semiannual Mode</u>	<u>Long Mode</u>	<u>Fixed Mode</u>
Interest Payment Date And Calculation Method	Semiannually on January 1 and July 1; on 360-day year of 12 30-day months	Semiannually on January 1 and July 1; on 360-day year of 12 30-day months	Semiannually on January 1 and July 1; on 360-day year of 12 30-day months
Record Date	Fifteenth day of month preceding each Interest Payment Date	Fifteenth day of month preceding each Interest Payment Date	Fifteenth day of month preceding each Interest Payment Date
Rate Determination Date	Any date designated by the Rate-Setting Agent not more than 35 days preceding nor later than the last Business Day for the Rate-Setting Agent preceding such Rate Period, which is each semiannual period ending the day before a January 1 or July 1	Any date designated by the Rate-Setting Agent not more than 35 days preceding nor later than the last Business Day for the Rate-Setting Agent preceding such Rate Period, which may be of any duration but must end on the day before a January 1	Any date designated by the Rate-Setting Agent not more than 35 days preceding nor later than the last Business Day for the Rate-Setting Agent preceding the Fixed Mode
Rate Adjustment Date	The first day of each Rate Period	The first day in each Rate Period	The first day of each Rate Period
Notice of Interest Rates	Bond Trustee to mail notice to Bondholder promptly after Rate Determination Date	Bond Trustee to mail notice to Bondholder promptly after Rate Determination Date	Bond Trustee to mail notice to Bondholder promptly after Rate Determination Date
Optional Tender Date	Any Rate Adjustment Date	Any Rate Adjustment Date	None
Notice of Optional Tender	Irrevocable written notice of tender and delivery of Bonds to the Tender Agent not earlier than 30 days prior or later than 3:00 p.m., New York, New York, time, on the Business Day 15 days prior to the Purchase Date.	Irrevocable written notice of tender and delivery of Bonds to the Tender Agent not earlier than 30 days prior or later than 3:00 p.m., New York, New York, time, on the Business Day 15 days prior to the Purchase Date.	None
Purchase Date for Mandatory Tender Upon Change in Interest Mode or Rate Period	The first Business Day of each new Interest Mode, in each case whether or not such new Interest Mode is effected.	Each Rate Adjustment Date for a Rate Period during a Long Mode when such Rate Period is different from the immediately preceding Rate Period in such Long Mode, and the first Business Day of each new Interest Mode, in each case whether or not such Interest Mode is effected.	None
Notice of Change in Interest Mode	Bond Trustee to mail notice to Bondholder by 30 th preceding day	Bond Trustee to mail notice to Bondholder by 30 th preceding day	None

SECURITY FOR THE BONDS

Limited Obligations of Authority

The Bonds are special and limited obligations of the Authority, and except to the extent payable from Bond proceeds or other moneys held under the Bond Indenture or insurance or condemnation proceeds, will be payable solely from and secured exclusively by the payments to be made by the Borrower (or by any other Member of the Obligated Group) under the Loan Agreement and the Series 2005 Notes and from draws on the respective Letters of Credit.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF INDIANA OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, AND THE BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY, THE STATE OF INDIANA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING HOWARD COUNTY, LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR PREMIUM, IF ANY, OR INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

Bond Indenture

In the Bond Indenture, the Authority will assign to the Bond Trustee, as security for the payment of the Bonds, all right, title and interest of the Authority in and to the following (the "Trust Estate"):

- (a) the Loan Agreement, except for the payment of indemnification and administrative fees and expenses;
- (b) all funds and accounts established under the Bond Indenture (except the Purchase Fund and the Rebate Fund);
- (c) the Series 2005 Supplemental Indentures; and
- (d) the Series 2005 Notes and all security therefor pursuant to the Master Indenture.

The Loan Agreement

Pursuant to the Loan Agreement, the Borrower (and together with any other Member of the Obligated Group) agrees to make payments to the Authority in such amounts and at such times as are sufficient to pay in full, when due, the principal of and premium, if any, and interest on the Series 2005 Notes, which amounts will be sufficient to pay the principal of and premium, if any, and interest on the Bonds. Upon satisfaction in full of the Series 2005 Notes, the Borrower will be released from liability on the Series 2005 Notes and under the Loan Agreement.

The Series 2005 Notes

To evidence and secure its obligation under the Loan Agreement, the Borrower will issue to the Authority, pursuant to the Master Indenture, the Series 2005 Notes in an aggregate principal amount equal to the aggregate principal amount of each series of the Bonds. The Authority will assign the Series 2005 Notes to the Bond Trustee. All payments by the Borrower of principal of and premium, if any, and interest on the Series 2005 Notes will be made to the Bond Trustee, and each payment will be made on or before the date when the corresponding payment is required to be made on the applicable series of Bonds. Each of the Series 2005 Notes will require payments by the Borrower which correspond to the amount of the principal of and premium, if any, and interest on the applicable series of Bonds. The Series 2005 Notes will at all times be in fully registered form and will be non-transferable except by written assignment to a successor trustee. The Series 2005 Notes and all other Notes (including the Bank Notes, the Swap Notes, if any, the Series 2005 C-

1 Note, the Series 2005 C-2 Note, the Series 2005 D Note and the Series 2005 E Note) will be equally and ratably secured under the Master Indenture by the covenants and agreements therein, except as otherwise described therein.

The Master Indenture

Collective Obligations. The Master Indenture permits the Borrower (and other Obligated Issuers) to issue Additional Notes (as defined in Appendix C) and to secure all Notes on a parity basis. Upon issuance of the Bonds, the Borrower will be the only Member of the Obligated Group. Additional Notes may be issued to secure Related Bonds or to evidence or secure debt owed to other creditors. Although each Obligated Issuer is the principal obligor on Notes issued on its behalf under the Master Indenture, all Members of the Obligated Group are jointly and severally obligated with respect to payment of each Note issued under the Master Indenture.

Pledge of Gross Revenues. The Borrower and any future Members of the Obligated Group have granted a security interest in their Gross Revenues to the Master Trustee as security for the making of payments on the Notes, including the Series 2005 Notes. Except as provided below, the Borrower and any future members of the Obligated Group will not grant any mortgage or security interest in their property to the Master Trustee.

“Gross Revenues” are all cash and other receipts, present and future Accounts (as defined in Appendix C), receivables, contracts and contract rights (including particularly those between the Borrower and each other Obligated Issuer and the State or any other state with respect to Medicaid; the Borrower and each other Obligated Issuer and third-party insurers of any patients of the Borrower and each other Obligated Issuer; and the Borrower and each other Obligated Issuer and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof); General Intangibles (as defined in Appendix C), documents and instruments, which are now owned or hereafter acquired by the Borrower and each other Obligated Issuer, and all proceeds therefrom, whether cash or non-cash, and which are derived by the Borrower and each other Obligated Issuer from the conduct of all or any part of their respective operations; and all revenue and income of the Borrower and each other Obligated Issuer from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Borrower and each other Obligated Issuer from any source, but excluding only Restricted Moneys (as defined in Appendix C) of the Borrower and the other Obligated Issuers.

Negative Pledge. Pursuant to the Master Indenture, the Borrower and any future Members of the Obligated Group, if any, have covenanted not to incur indebtedness secured by an encumbrance on or mortgage of the Property of the Borrower, including the Gross Revenues, unless the Bonds are equally and ratably secured with such indebtedness or unless such mortgage is a Permitted Encumbrance under the Master Indenture. See “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS” in Appendix C hereto.

Substitution of Notes

UNDER CERTAIN CIRCUMSTANCES DESCRIBED IN THE BOND INDENTURE, THE SERIES 2005 NOTES MAY BE EXCHANGED FOR THE OBLIGATIONS (“SUBSTITUTE NOTES”) OF A DIFFERENT OBLIGATED GROUP OF WHICH THE BORROWER WOULD BE A MEMBER. THIS COULD, UNDER CERTAIN CIRCUMSTANCES, LEAD TO THE SUBSTITUTION OF DIFFERENT SECURITY IN THE FORM OF A NOTE BACKED BY AN OBLIGATED GROUP THAT IS FINANCIALLY AND OPERATIONALLY DIFFERENT THAN THE PRESENT OBLIGATED GROUP. SUCH NEW OBLIGATED GROUP COULD HAVE SUBSTANTIAL DEBT OUTSTANDING THAT WOULD RANK ON A PARITY WITH THE SUBSTITUTE NOTES. SUCH OBLIGATED GROUP MAY ALSO HAVE SUBSTANTIALLY DIFFERENT COVENANTS THAN THE COVENANTS UNDER THE MASTER INDENTURE. THE COVENANTS UNDER THE MASTER INDENTURE WOULD NO LONGER BE BINDING ON THE PRESENT OBLIGATED GROUP. SUCH EXCHANGE COULD ADVERSELY AFFECT THE MARKET PRICE FOR AND MARKETABILITY OF THE BONDS. IN ORDER TO SO EXCHANGE THE SERIES 2005 NOTES, THE OBLIGATED GROUP MUST MEET CERTAIN TESTS AND REQUIREMENTS. SEE “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS—BOND INDENTURE—Substitution Of Notes” IN APPENDIX C HERETO.

Additional Notes

Upon the terms and subject to the conditions provided in the Master Indenture, the Borrower may issue Additional Notes, which will be equally and ratably secured by the security interest created by the Master Indenture. See “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” in Appendix C hereto.

County Not Liable on the Series 2005 Notes

The obligations of the Borrower under the Loan Agreement, the Series 2005 Notes and the Master Indenture are limited obligations of the Borrower payable solely from the Gross Revenues of the Borrower. Such obligations shall not constitute a pledge of the faith and credit of Howard County or an indebtedness or charge against the general credit or taxing powers of Howard County within the meaning of any constitutional or statutory provision.

Letters of Credit

Series 2005A Letter of Credit. As security for the timely payment of the principal of and interest on the Series 2005A Bonds, and the timely payment of the Purchase Price of Series 2005A Bonds tendered for purchase on demand or mandatory tender as described herein, the Series 2005A Bank will issue to the Bond Trustee its irrevocable direct-pay Series 2005A Letter of Credit in an original stated amount equal to the aggregate principal amount of the Series 2005A Bonds Outstanding plus 45 days’ interest on the principal amount of the Series 2005A Bonds Outstanding, calculated at 10% per annum, pursuant to the Series 2005A Reimbursement Agreement. The Series 2005A Letter of Credit is ***not*** available to pay any principal of or interest on, or purchase price of, any Series 2005B Bonds.

Series 2005B Letter of Credit. As security for the timely payment of the principal of and interest on the Series 2005B Bonds, and the timely payment of the Purchase Price of Series 2005B Bonds tendered for purchase on demand or mandatory tender as described herein, the Series 2005B Bank will issue to the Bond Trustee its irrevocable direct-pay Series 2005B Letter of Credit in an original stated amount equal to the aggregate principal amount of the Series 2005B Bonds Outstanding plus 45 days’ interest on the principal amount of the Series 2005B Bonds Outstanding, calculated at 10% per annum, pursuant to the Series 2005B Reimbursement Agreement. The Series 2005B Letter of Credit is ***not*** available to pay any principal of or interest on, or purchase price of, any Series 2005A Bonds.

Expiration of Letters of Credit. Each Letter of Credit will expire on August 31, 2010, unless earlier terminated or extended as described herein. Pursuant to the Bond Indenture and the Reimbursement Agreement under which such Letter of Credit is issued, the Borrower may request an extension of such Letter of Credit or deliver to the Bond Trustee substitute liquidity and credit facilities, subject to certain conditions set forth in the Bond Indenture and such Reimbursement Agreement. See “THE LETTERS OF CREDIT” and “BONDHOLDERS’ RISKS—The Letters of Credit” herein.

Credit Facility. The provisions of the Letter of Credit for the Bonds of each series providing for draws to pay principal of and interest on the Bonds of such series and any substitute credit facility are herein referred to as a “Credit Facility” and, as used herein, a “Credit Enhancer” refers to a Letter of Credit Bank in such capacity and the obligor on any such substitute Credit Facility and “Reimbursement Agreement” may refer to the initial or any substitute agreement under which a Credit Facility is issued. See “THE LETTERS OF CREDIT” herein.

Liquidity Facility. The provisions of the Letter of Credit for the Bonds of each series providing for draws to pay the Purchase Price of the Bonds of such series tendered for purchase and any such substitute liquidity facility are herein referred to as a “Liquidity Facility” and, as used herein, a “Bank” refers to a Letter of Credit Bank in such capacity and to the obligor on any such substitute Liquidity Facility. See “THE LETTERS OF CREDIT” herein.

The Letter of Credit Banks. Certain information about the Series 2005A Bank is included in Appendix F hereto, and certain information about the Series 2005B Bank is included in Appendix G hereto.

The 2005 Master Agreement

The Borrower may enter into the 2005 Master Agreement with the Swap Provider to hedge the Obligated Group's interest rate exposure on all or a portion of the Series 2005A-1 Master Note or the Series 2005B-1 Master Note, or both. If entered into, the 2005 Master Agreement is expected to provide that the Obligated Group will pay to the Swap Provider fixed amounts based on a fixed rate and that the Swap Provider will pay to the Obligated Group floating amounts based on a variable rate, with reference to a notional amount equal to all or a portion of the principal amount of the Series 2005A Bonds and/or the Series 2005B Bonds, as the case may be.

Under certain circumstances, the 2005 Master Agreement, if entered into, will be subject to termination prior to the maturity of the Series 2005 Notes and prior to the scheduled termination date thereof. In the event of an early termination of the 2005 Master Agreement, there can be no assurance that (i) the Obligated Group will receive any termination payment payable to it by the Swap Provider, (ii) the Obligated Group will have sufficient amounts to make a termination payment payable by it to the Swap Provider, or (iii) the Obligated Group will be able to obtain a replacement swap agreement with comparable terms. Payments due upon early termination may be substantial.

The Obligated Group is obligated to make payments on the Series 2005 Notes regardless of the performance of the Swap Provider of its obligations under the 2005 Master Agreement, if any. The Swap Provider will have no obligation to make any payments with respect to the principal of and premium, if any, and interest on the Series 2005 Notes or the Bonds and will only be obligated to make certain payments to the Obligated Group pursuant to the terms of the 2005 Master Agreement. Any agreement by the Swap Provider to pay amounts to the Obligated Group under the 2005 Master Agreement does not alter or affect the Obligated Group's obligation to pay the principal of and premium, if any, and interest on the Series 2005 Notes. Neither the holders of the Series 2005 Notes nor any other person other than the Obligated Group will have any rights under the 2005 Master Agreement or against the Swap Provider. Any payments due to the Swap Provider under the 2005 Master Agreement by the Obligated Group will be secured by the Swap Notes.

See "BONDHOLDERS' RISKS—Interest Rate Swap Risk" for a discussion of certain risks associated with swap transactions.

THE LETTERS OF CREDIT

The Letter of Credit Banks

Certain information about the Series 2005A Bank is included in Appendix F hereto, and certain information about the Series 2005B Bank is included in Appendix G hereto.

The Letters of Credit

The following is a brief summary of certain provisions of each Letter of Credit. This summary does not purport to be comprehensive and reference is made to each Letter of Credit, copies of which are available for examination at the office of the Bond Trustee.

Series 2005A Letter of Credit. The Series 2005A Letter of Credit authorizes the Bond Trustee to draw on the Series 2005A Bank a maximum aggregate amount not to exceed \$30,369,863.00 (representing the sum of the original principal amount of the Series 2005A Bonds plus interest thereon at a rate of 10% per annum for a period of 45 days), to pay the principal of and accrued interest on, or the purchase price of, the Series 2005A Bonds, in accordance with the terms of the Series 2005A Letter of Credit. The Series 2005A Letter of Credit is ***not*** available to pay any principal of or interest on, or purchase price of, any Series 2005B Bonds.

Series 2005B Letter of Credit. The Series 2005B Letter of Credit authorizes the Bond Trustee to draw on the Series 2005B Bank a maximum aggregate amount not to exceed \$20,246,575.00 (representing the sum of the original principal amount of the Series 2005B Bonds plus interest thereon at a rate of 10% per annum for a period of 45 days), to pay the principal of and accrued interest on, or the purchase price of, the Series 2005B Bonds, in accordance with the

terms of the Series 2005B Letter of Credit. The Series 2005B Letter of Credit is **not** available to pay any principal of or interest on, or purchase price of, any Series 2005A Bonds.

Draws on Letters of Credit. Under the Letter of Credit for the Bonds of each series, the Bond Trustee is authorized to make draws by presentation of certain certificates to the Letter of Credit Bank which issued such Letter of Credit in compliance with the terms of such Letter of Credit.

Available Amount. The amount available to be drawn under the Letter of Credit for the Bonds of each series (the “Available Amount”) will be reduced automatically by the amount of any drawing thereunder. However, the amount of any drawing to pay accrued interest on the Bonds of such series (an “Interest Drawing”) will be automatically reinstated effective the 11th calendar day from the date of such drawing, unless the Bond Trustee has received notice from the Letter of Credit Bank which issued such Letter of Credit within 10 calendar days of the date of such Interest Drawing that such Letter of Credit will not be so reinstated, except that the portion of any Interest Drawing effected to pay interest on Bonds being concurrently redeemed through a drawing to pay the principal of and accrued interest on any Bonds in respect of any redemption of such Bonds (a “Redemption Drawing”) will not be so reinstated. Also, to the extent the Available Amount is reduced due to payment by the Letter of Credit Bank which issued such Letter of Credit of any drawing to pay the purchase price of any Bonds tendered to the Tender Agent in accordance with the Bond Indenture which were not remarketed and which are required to be purchased (a “Liquidity Drawing”), the obligation of such Letter of Credit Bank to honor drawings under such Letter of Credit will be automatically reinstated, concurrently with the receipt by such Letter of Credit Bank, or the Tender Agent on behalf of such Letter of Credit Bank, of the purchase price of Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing and which have been resold, by an amount equal to the original purchase price of such Bonds (or portions thereof) as have been resold.

Each Letter of Credit provides that, upon receipt by the Letter of Credit Bank which issued such Letter of Credit of a certificate of the Bond Trustee stating that the amount available to be drawn under such Letter of Credit is to be reduced, such Letter of Credit Bank will automatically and permanently reduce the amount available to be drawn under such Letter of Credit by the amount specified in such certificate. Also, each Letter of Credit provides that, upon a Redemption Drawing, the Letter of Credit Bank which issued such Letter of Credit will automatically and permanently reduce the amount available to be drawn under such Letter of Credit by any amount specified as a decline in the amount of necessary excess interest coverage resulting from the partial redemption of Bonds effected through such Redemption Drawing (and taking into account the nonreinstatement, as provided in the immediately preceding paragraph, of that portion of any Interest Drawing which may have been effected to pay interest on Bonds being redeemed through such Redemption Drawing).

Expiration of Letters of Credit. The Letter of Credit issued by the applicable Letter of Credit Bank for the Bonds of each series will expire on the earliest to occur of:

- (i) the close of business of such Letter of Credit Bank on August 31, 2010 (the “Stated Expiration Date”);
- (ii) the close of business of such Letter of Credit Bank on the date which is three business days following either (A) the conversion of such series of Bonds to a Fixed Mode or (B) the conversion of such series of Bonds to an Interest Mode other than the Daily Mode or the Fixed Mode, unless such Letter of Credit Bank has given its prior written consent to such conversion;
- (iii) the close of business of such Letter of Credit Bank on the date of receipt from the Bond Trustee of a certificate stating that (A) no Bonds of such series remain outstanding or (B) an alternate Credit Facility has been issued to replace such Letter of Credit;
- (iv) the date on which a drawing to pay the principal of and accrued interest on any Bonds of such series, the payment of which has been accelerated pursuant to the Bond Indenture, is honored by such Letter of Credit Bank; or
- (v) the close of business of such Letter of Credit Bank on the date which is 15 days after the Bond Trustee’s receipt of notice from such Letter of Credit Bank specifying the occurrence of an event of default under the

Reimbursement Agreement under which such Letter of Credit was issued and directing the Bond Trustee to accelerate such series of Bonds

(the earliest to occur of (i), (ii) (iii), (iv) or (v), the “Expiration Date”). Upon the Expiration Date of a Letter of Credit, such Letter of Credit will automatically terminate and will be delivered for cancellation to the Letter of Credit Bank which issued such Letter of Credit.

Prior to the Expiration Date of either Letter of Credit, the Letter of Credit Bank which issued such Letter of Credit may, in its sole discretion, extend the Stated Expiration Date of such Letter of Credit from time to time at the request of the Borrower. Any date to which any Stated Expiration Date has been so extended may be extended in a like manner.

Bondholders’ Risks. For a description of some of the risks associated with the Letters of Credit, see “BONDHOLDERS’ RISKS—The Letters of Credit.”

The Reimbursement Agreements

The following is a brief summary of certain provisions of each Reimbursement Agreement. This summary does not purport to be comprehensive and reference is made to each Reimbursement Agreement, copies of which are available for examination at the office of the Bond Trustee.

Reimbursement; Fees. Under the Reimbursement Agreement with each Letter of Credit Bank, the Borrower agrees to reimburse such Letter of Credit Bank for each draw under the Letter of Credit issued by such Letter of Credit Bank. In addition, the Borrower agrees to pay various fees and expenses of such Letter of Credit Bank.

Representations and Warranties; Covenants. In the Reimbursement Agreement with each Letter of Credit Bank, the Borrower makes various representations and warranties to such Letter of Credit Bank. The Borrower also undertakes various affirmative and negative covenants to such Letter of Credit Bank with respect to its legal, business and financial affairs, including without limitation covenants to maintain certain ratios of cash and investments to expenses, certain ratios of liabilities to net assets, and certain ratios of net income to debt service.

Events of Default. The Reimbursement Agreement with the Letter of Credit Bank which issued the Letter of Credit for a series of Bonds provides that, if any of the following events occurs and continues, each such event will be an event of default under such Reimbursement Agreement:

- (i) Any representation or warranty made by the Borrower or any future Obligated Issuer in such Reimbursement Agreement, the Master Indenture, the Remarketing Agreement for such series of Bonds, the Loan Agreement, the applicable Series 2005 Note or the Bank Note of such Letter of Credit Bank, or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection therewith, proves to have been incorrect in any material respect when made;
- (ii) The Borrower shall fail to pay when due any of the Credit Obligations (as defined in Appendix D);
- (iii) The Borrower shall fail to perform or observe the covenants to maintain its legal existence, maintain its financial covenants, redeem Bonds pro rata as between the Series 2005A Bonds and the Series 2005B Bonds, or to comply with its negative covenants contained in such Reimbursement Agreement, or the Borrower shall fail to perform or observe any other term, covenant or agreement contained in such Reimbursement Agreement unless remedied within 15 days after written notice thereof shall have been given to the Borrower by such Letter of Credit Bank;
- (iv) Any material provision of such Reimbursement Agreement shall at any time for any reason cease to be valid and binding on the Borrower or any other future Obligated Issuer, or shall be declared to be null and void, or the validity or enforceability thereof against the Borrower or any other future Obligated Issuer shall be contested by the Borrower or any future Obligated Issuer or any governmental agency or authority, or the Borrower or any future Obligated Issuer shall deny that it has any or further liability or obligation under such Reimbursement Agreement;

- (v) The default by the Borrower or any future Obligated Issuer in the due payment of any of its indebtedness or in the observance or performance of any term, covenant or condition in any agreement or instrument evidencing, securing or relating to such indebtedness, and such default shall be continued (and disregarding for this purpose any waiver thereof by the holders of such indebtedness) for a period sufficient to permit acceleration of the indebtedness;
- (vi) The entry against the Borrower, any future Obligated Issuer or any of their subsidiaries, of one or more judgments or decrees involving an aggregate liability of \$100,000 or more, which has or have become non-appealable and shall remain undischarged, either not covered by or unsatisfied by insurance and unstayed for more than thirty days, whether or not consecutive; or the issuance and levy of a writ of attachment or garnishment against the property of the Borrower, any future Obligated Issuer, or any of their subsidiaries in an action claiming \$100,000 or more, and which is not released or appealed and bonded in a manner satisfactory to the applicable Letter of Credit Bank;
- (vii) If the Borrower, any future Obligated Issuer, or any of their subsidiaries shall voluntarily suspend transaction of its business; or if the Borrower or any future Obligated Issuer shall make a general assignment for the benefit of creditors; or shall be the object of a petition under the Bankruptcy Code; or shall file a voluntary petition under the Bankruptcy Code or for a reorganization or to effect a plan or other arrangement with its creditors; or shall file an answer to a creditor's petition or other petition against it (admitting the material allegations thereof) for liquidation or adjustment of debts or for a reorganization; or shall apply for or permit the appointment of a receiver, trustee, or custodian for any substantial portion of its properties or assets; or if any order shall be entered by any court approving an involuntary petition seeking reorganization; or if a receiver, trustee, or custodian shall be appointed for it or for any substantial portion of its property or assets; or if it becomes unable to meet its obligations as they mature;
- (viii) If any future Obligated Issuer which is subject to ERISA shall fail to meet its minimum funding requirements under ERISA with respect to any employee benefit plan established or maintained by any future Obligated Issuer (or any subsidiary) or if for any such plan a reportable event shall occur or such plan shall be the subject of termination proceedings which event or proceedings in the opinion of the applicable Letter of Credit Bank will have a materially adverse effect upon the operations, business, property, assets, financial condition or credit of the Borrower or any future Obligated Issuer;
- (ix) An Event of Default under and as defined in any of the Transaction Documents (as defined in Appendix D) or any of the Transaction Documents relating to a Letter of Credit securing another series of Bonds shall have occurred and be continuing without the same being cured or waived pursuant to the terms thereof;
- (x) Any material adverse change in the financial position or operations of the Borrower or any future Obligated Issuer which has not been reversed, remedied, corrected, or cured to the satisfaction of the applicable Letter of Credit Bank by the first to occur of (A) 60 days after the date the material adverse change occurred or first existed or (B) 30 days after the date that the applicable Letter of Credit Bank gives notice to the Borrower that such Letter of Credit Bank deems an event, condition or other circumstance to constitute a material adverse change under this subsection;
- (xi) If the Expiration Date is not extended by the applicable Letter of Credit Bank at least 15 days prior to its respective scheduled occurrence and no alternative Credit Facility (as such term is defined in the Indenture) has been delivered to the Bond Trustee;
- (xii) Any failure by Borrower, any future Obligated Issuer, or any guarantor of the Credit Obligations to comply with, or breach by the Borrower, any future Obligated Issuer, or any such guarantor of, any of the terms, provisions, warranties or covenants of any other agreement or commitment between the Borrower, any future Obligated Issuer, and/or such guarantor and the Bank; or
- (xiii) If a Letter of Credit securing another series of Bonds shall be terminated (or returned for cancellation) without the concurrent issuance of an alternative Credit Facility and Liquidity Facility.

Remedies. Upon the occurrence and continuation of any event of default under a Reimbursement Agreement, in addition to a Letter of Credit Bank's other remedies available at law or in equity, such Letter of Credit Bank may at any time and in its sole discretion, but shall not be obligated to:

- (i) terminate its commitment to issue such Letter of Credit;
- (ii) if the Letter of Credit has been issued, elect to give notice to the Trustee pursuant to the Bond Indenture requiring the Trustee to declare the principal of all Bonds of the applicable series then outstanding and the interest accrued thereon and any premium thereon and thereby owing to be immediately due and payable;
- (iii) declare immediately due and payable (a) all sums owing to the Letter of Credit Bank under the Reimbursement Agreement plus (b) the aggregate Letter of Credit Amount, provided that upon the occurrence of an event of default under (vii) above, these sums and amounts will be automatically due and payable without declaration; or
- (iv) declare the applicable Series 2005 Note to be immediately due and payable.

Amendments. The Reimbursement Agreement with each Letter of Credit Bank may be amended by such Letter of Credit Bank and the Borrower at any time and in writing, without any consent from or notice to the Authority, the Bond Trustee, the Master Trustee or any Bondholders.

Release and Substitution

The Bond Indenture provides that any Credit Facility (including either Letter of Credit) and any Liquidity Facility (including either Letter of Credit) for either series of Bonds may be released by the Bond Trustee:

- (a) at the option of the Borrower on the first Business Day of (i) any month during a Daily Mode or a Weekly Mode, (ii) any Rate Period during a Flexible, Semiannual or Long Mode for the Bonds of such series, or (iii) any Fixed Mode;
- (b) when no Bonds of such series remain Outstanding;
- (c) when such Credit Facility or Liquidity Facility expires or is terminated in accordance with its terms;
- (d) when a successor Bond Trustee is appointed and qualified and such Credit Facility or Liquidity Facility is replaced with an alternate Credit Facility or Liquidity Facility; or
- (e) when the maximum aggregate credit available under such Credit Facility or Liquidity Facility is reduced in accordance with its terms and the issuer thereof provides a new Credit Facility or Liquidity Facility for the Bonds of such series in the reduced amount.

The Bond Trustee will give the notice required to be given for mandatory tender of Bonds to all owners of the Bonds of either series affected by the release of a Credit Facility or Liquidity Facility described in subparagraph (a), (c) or (d) above.

If an alternate, extended or amended Credit Facility or Liquidity Facility is being provided for either series of Bonds, such Facility:

- (1) must have a term which is neither less than one year nor, if the release of the prior Facility occurs during a Flexible Mode, a Long Mode or the Fixed Mode for the Bonds of such series, less than the shorter of the remaining term of the prior Facility or the remaining term of the Rate Period for the Bonds of such series then in effect, and ends no sooner than the close of business on the 6th Business Day of a month;
- (2) must provide for draws or claims sufficient to pay the principal of the Bonds of such series then outstanding plus interest thereon, at the maximum per annum rate of interest which may be borne by the Bonds of such

series during any Interest Mode for the Bonds of such series to be in effect during the term of such alternate, extended or amended Credit Facility (or, in the case of a Liquidity Facility, must provide for draws or claims to pay a Purchase Price equal to such amount) for up to at least the sum of (i) the greatest number of days between Interest Payment Dates for the Bonds of such series in such Interest Mode (or 34 days if the Credit Facility being provided or remaining in effect for the Bonds of such series allows monthly draws for accrued interest), (ii) the greatest number of days which may transpire after a draw or claim under such alternate, extended or amended Facility to pay interest on the Bonds of such series (or the interest component of the Purchase Price of the Bonds of such series) prior to reinstatement of such amount, and (iii) five days; and

- (3) may be a letter of credit, policy of insurance, surety bond, acceptance or guarantee or otherwise be different in form and structure from the prior Facility, but must provide rights not materially different therefrom with respect to the amounts of principal of and interest on (or, in the case of a Liquidity Facility, Purchase Price of) the Bonds covered thereby, the rights of the Bond Trustee to draw, make claim for and enforce payment of such amounts, and the provisions for release or termination thereof.

BOOK-ENTRY ONLY SYSTEM

Bonds in Book-Entry Form

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Bond Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrower believes to be reliable, but neither the Authority, the Borrower, either Letter of Credit Bank nor any Underwriter takes any responsibility for the accuracy thereof.

Disclaimer

THE INFORMATION PROVIDED ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE BORROWER, EITHER LETTER OF CREDIT BANK OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The Authority, the Borrower, the Bond Trustee and the Letter of Credit Banks will have no responsibility or obligation with respect to:

- (i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Bonds;
- (ii) the delivery to any Direct Participant or Indirect Participant or any other person, other than an owner, as shown in the bond register, of any notice with respect to any Bond including, without limitation, any notice of redemption;
- (iii) the payment to any Direct Participant or Indirect Participant or any other person, other than an owner, as shown in the bond register, of any amount with respect to the principal of or premium, if any, or interest on any Bond; or
- (iv) any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book-entry only system described under this caption, the Authority and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation:

- (i) the payment of the principal of and premium, if any, and interest on the Bonds;
- (ii) giving notices of redemption and other matters with respect to the Bonds;
- (iii) registering transfers with respect to the Bonds; and
- (iv) the selection of Bonds for redemption.

THE PROJECT AND PLAN OF FINANCE

The Borrower intends to apply the proceeds of the Bonds to finance, refinance or reimburse a portion of the costs of constructing, acquiring, renovating or equipping the Project, which consists of certain health facility property to be used by the Borrower, including without limitation emergency room renovation and expansion and the construction of an ICU/CCU addition. See “The Current Project” in Appendix A. The Borrower will also apply a portion of the proceeds of the Bonds to retire (i) the loan from the Authority of a portion of the proceeds of the Authority’s Variable Rate Demand Revenue Bonds, Series 2000 (Capital Access Designated Pool Program), and (ii) the loan from the Authority of a portion of the proceeds of the Authority’s Variable Rate Demand Insured Revenue Bonds, Series 1985A (the “Refunded Loans”).

Interest Rate Swaps

In connection with the issuance of the Bonds, the Borrower may enter into the 2005 Master Agreement. Any obligations of the Borrower to the Swap Provider will be secured by one or more Swap Notes.

The 2005 Master Agreement, if any, and the confirmations will not affect or alter any of the obligations of the Borrower or any other Member of the Obligated Group with respect to the payment of principal of or interest on the

Bonds or the Series 2005 Notes, and neither the owners of the Bonds nor any person other than the Borrower will have any rights under the 2003 Master Agreement or the confirmations or against the Swap Provider.

For a discussion of certain of the risks associated with interest rate swap agreements, see “BONDHOLDERS’ RISKS—Interest Rate Swap Risk.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Source of Funds:

Par Amount of Bonds	\$ 50,000,000.00
Transfers from Prior Issue Debt Service Funds	514,775.90
Total Sources of Funds	\$ 50,514,775.90

Uses of Funds:

Project Costs	\$ 41,390,000.00
Refinancing of Prior Indebtedness	8,531,363.60
Costs of Issuance ⁽¹⁾	<u>593,392.30</u>
Total Uses of Funds	\$ 50,514,755.90

(1) Includes Underwriters’ discount, letter of credit fees and expenses, fees and expenses of accountants, counsel to the Borrower, Bond Counsel, Underwriters’ Counsel, the Bond Trustee and the Master Trustee, and costs of printing, rating agency fees and miscellaneous costs.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Fiscal Year ending December 31, the amounts required in each Fiscal Year for the payment of principal at maturity or by sinking fund redemption and the payment of interest on the Bonds, and the other outstanding indebtedness of the Borrower (excluding the Refunded Loans) at the assumed rate noted below.

<u>Year</u>	<u>Bonds</u>		<u>Total Debt Service on the Bonds (3)</u>	<u>Prior Debt Service (3) (4)</u>	<u>Total Debt Service (3)</u>
	<u>Principal (1)</u>	<u>Interest (2)</u>			
2005	-0-	442,361	442,361	849,122	1,291,483
2006	-0-	1,750,000	1,750,000	6,747,543	8,497,543
2007	305,000	1,740,215	2,045,215	1,250,373	3,295,588
2008	800,000	1,713,658	2,513,658	648,837	3,162,495
2009	820,000	1,685,017	2,505,017	649,102	3,154,118
2010	855,000	1,655,194	2,510,194	649,386	3,159,580
2011	885,000	1,624,306	2,509,306	649,690	3,158,997
2012	915,000	1,592,369	2,507,369	650,017	3,157,386
2013	950,000	1,559,221	2,509,221	650,367	3,159,588
2014	990,000	1,524,688	2,514,688	650,743	3,165,430
2015	1,025,000	1,488,915	2,513,915	651,146	3,165,060
2016	1,055,000	1,452,077	2,507,077	4,684,546	7,191,623
2017	1,090,000	1,414,029	2,504,029	54,752	2,558,781
2018	1,130,000	1,374,596	2,504,596	-0-	2,504,596
2019	1,175,000	1,333,602	2,508,602	-0-	2,508,602
2020	1,220,000	1,291,033	2,511,033	-0-	2,511,033
2021	1,260,000	1,247,050	2,507,050	-0-	2,507,050
2022	1,310,000	1,201,346	2,511,346	-0-	2,511,346
2023	1,355,000	1,154,052	2,509,052	-0-	2,509,052
2024	1,405,000	1,105,023	2,510,023	-0-	2,510,023
2025	1,450,000	1,054,404	2,504,404	-0-	2,504,404
2026	2,545,000	968,523	3,513,523	-0-	3,513,523
2027	2,640,000	876,400	3,516,400	-0-	3,516,400
2028	2,730,000	781,112	3,511,112	-0-	3,511,112
2029	2,830,000	682,354	3,512,354	-0-	3,512,354
2030	2,930,000	580,096	3,510,096	-0-	3,510,096
2031	3,040,000	474,017	3,514,017	-0-	3,514,017
2032	3,145,000	364,248	3,509,248	-0-	3,509,248
2033	3,260,000	250,483	3,510,483	-0-	3,510,483
2034	3,385,000	132,373	3,517,373	-0-	3,517,373
2035	<u>3,500,000</u>	<u>10,208</u>	<u>3,510,208</u>	<u>-0-</u>	<u>3,510,208</u>
Total	<u>50,000,000</u>	<u>34,522,970</u>	<u>84,522,970</u>	<u>18,785,624</u>	<u>103,308,594</u>

- (1) Principal amounts shown represent amounts to be redeemed by mandatory sinking fund redemption.
- (2) Interest on the Bonds and prior variable rate debt service has been calculated at the assumed rate of 3.50%. This calculation does not conform to the method prescribed for calculating debt service to determine compliance with various financial tests under the Master Indenture. Actual results may vary.
- (3) Total debt service includes interest assumed as described in footnote (2) above. Actual results may vary. Due to rounding, total debt service may not equal the sum of total debt service on the Bonds and prior debt service.
- (4) Prior debt service includes two balloon payments on the Salin Loans. The Salin Loans are expected to be refinanced and restructured subsequent to the date of delivery of the Bonds.

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. **Risks discussed in terms of their possible effect on the Borrower may also affect any future Member of the Obligated Group.** The discussion of risk factors is not meant to be exhaustive.

The ability of the Borrower, and any future Member of the Obligated Group, to realize revenues in amounts sufficient to pay debt service on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Borrower in amounts sufficient to pay debt service when due on the Bonds. The risk factors discussed below should be considered in evaluating the Borrower's ability to make payments due under the Bond Indenture, the Loan Agreement and the Series 2005 Notes in amounts sufficient to provide for payment of the principal of and interest on the Bonds.

Risks Pertaining to the Substitution of Series 2005 Notes

Under circumstances described in the Bond Indenture, the Series 2005 Notes may be exchanged for the obligations of a different obligated group, of which the Borrower would be a member. This could, under certain circumstances, lead to the substitution of different security in the form of notes backed by an obligated group that is financially and operationally different than the then current Members of the Obligated Group. Such new Obligated Group could have substantial debt outstanding that would rank on a parity with the substitute notes. Such exchange could adversely affect the market price for and marketability of the Bonds. In order to so exchange the Series 2005 Notes, the Obligated Group must meet certain tests and requirements, as described in APPENDIX C hereto under the caption, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Substitution of Obligations."

Additional Debt

The Master Indenture permits the issuance of additional Notes on a parity with the Series 2005 Notes and also permits incurrence of other Additional Indebtedness by the Obligated Group. See the information in APPENDIX C hereto under the caption "SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE—Other Covenants of the Borrower and Other Obligated Issuers," and "—Permitted Additional Indebtedness." See "SECURITY FOR THE BONDS—The Master Indenture" above.

Risks Pertaining to the Hospital and Health Care Industry

The Borrower is a health care provider which derives significant portions of its revenues from Medicare, Medicaid and other third party payor programs. The Borrower and any future members of the Obligated Group are subject to governmental regulations applicable to health care providers and the receipt of future revenue by the Borrower and any future members of the Obligated Group are subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. The effect on the Borrower and any future members of the Obligated Group of recently enacted laws and regulations, of future changes in federal and state laws and policies and changes in third party payor policies cannot be fully or accurately determined at this time.

In addition, the receipt of future revenues by the Borrower and any members of the Obligated Group are subject to changes in future economic and other conditions, including, without limitation, increased competition, inflation, the emergence of specialty hospitals, demand for hospital services, the capability of management of the Borrower and any future members of the Obligated Group, the ability of the Borrower and any future members of the Obligated Group to provide the services required or requested by patients, physicians' confidence in the Borrower and any future members of the Obligated Group, employee relations and unionization, malpractice claims and other litigation, demographic changes and other factors. Such factors may adversely affect revenues and, consequently, payment of the principal of, premium, if any, and interest on the Bonds.

The following discussion of risk factors is not intended to be exhaustive, and should be read in conjunction with all other parts of this Official Statement.

Federal and State Regulation and Legislation

General. A significant portion of the revenues of the Borrower is derived from Medicare, Medicaid, Blue Cross Blue Shield and other third-party payor programs. Significant changes have been made, and further changes may be made in certain parts of these programs that affect or could affect the reimbursement rates for health services. These changes could have a material adverse effect upon the Borrower's operations and financial results. Bills have been, and other bills may be, introduced in the Congress of the United States that, if enacted, could have a material adverse effect upon the Borrower's operations and financial results by, for example, decreasing reimbursement by third-party payors, such as Medicare or Medicaid, or limiting the ability of the Borrower to provide services or expand services provided to patients.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, are disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers certain physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the state involved.

Health care providers have been and will continue to be affected significantly by recent changes in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose and result of these diverse and complex changes have been to create a reduction in the reimbursement rates for health care costs, particularly costs paid to health care providers under the Medicare and the Medicaid programs. Some changes have been implemented and some will be implemented in the future. The following is a summary of the Medicare and the Medicaid programs and certain related risk factors.

Medicare

General. The facilities operated by the Borrower are certified as providers for Medicare services and participate in the Medicare program. As of December 31, 2004, approximately 41.6% of the gross patient revenues of the Borrower were derived from Medicare. As a consequence, any adverse change in Medicare reimbursement could have a material adverse effect upon the Borrower's operations and financial results.

Laws and regulations governing the Medicare and the Medicaid programs are extremely complex and subject to interpretation. The Borrower will have a significant dependence on Medicare as a source of revenue, and changes in the Medicare program are likely to have a material effect on the Borrower. The requirements for Medicare certification and participation are subject to change, and in order to remain qualified for the program, it may be necessary for the Borrower to take action and incur costs from time to time to comply with new requirements for their facilities, equipment, personnel and services. The Borrower intends to continue to participate in the Medicare program.

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs, such as depreciation and interest expense, are also paid on the basis of "reasonable cost," subject to certain limits.

Inpatient Operating Costs. Acute care hospitals are paid a specified amount towards their operating costs based upon the Diagnosis Related Group ("DRG") to which each Medicare patient is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services, formerly known as the Health Care Finance Administration or HCFA ("CMS"), and is not directly related to a hospital's actual costs for a given procedure. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional

payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of a patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital.

DRG payments are adjusted annually based upon the hospital "market basket" index, or the cost of providing health care services. Each year (other than 2001) since 1983, Congress has modified the increases and approved substantially less than the increase in the "market basket" index. There is no assurance that future increases in the DRG payments will keep pace with the increases in the cost of providing hospital services. In fact, pursuant to the Balanced Budget Act of 1997 (the "BBA"), the DRG payment increase for fiscal year 1999 was the market basket percentage increase minus 1.9 (-1.9%) for all hospitals in all areas. For fiscal year 2000, it was market basket minus 1.8 (-1.8%). The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA"), which was signed into law in December 2000, provides certain givebacks to hospitals to alleviate the effect of the BBA. Specifically, from October 1, 2000, through March 31, 2001, the payment update was the market basket index minus 1.1 (-1.1%), but changed to market basket index plus 1.1% for the remainder of federal fiscal year 2001. The payment update for federal fiscal year 2002 and 2003 was the market basket index minus 0.55 (-0.55%). The payment update for federal fiscal year 2004 and for subsequent years is the market basket index for prospective payment hospitals.

The Secretary of the United States Department of Health and Human Services ("HHS") is required to review annually the DRG categories to take into account any new procedures, to reclassify DRGs and to recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. There is no assurance that the Borrower will be paid amounts that will reflect adequately changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget-neutral basis.

Long-term care hospitals, inpatient psychiatric facilities and inpatient rehabilitation hospitals and units were historically exempted from PPS and were reimbursed on a "reasonable cost" basis. However, legislative developments in the late 1990's and early 2000's resulted in changes to the methods of payment for these PPS-exempted facilities. Inpatient rehabilitation facilities are now reimbursed by Medicare by using a per case PPS payment methodology. Long-term care hospitals and inpatient psychiatric facilities are being transitioned to per case and per diem, respectively, PPS payment systems. The transition period for long-term care hospitals will be complete starting with the cost reporting periods beginning October 1, 2006, and the transition period for inpatient psychiatric facilities will be complete starting with cost reporting periods beginning January 1, 2008.

Capital Costs. Effective for cost reporting periods beginning on or after October 1, 2001, hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Capital costs, therefore, are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs), subject to certain hospital-specific adjustments (such as for disproportionate share, indirect medical education and outlier cases). Prior to October 1, 2001, hospitals were paid on the basis of a blend of hospital-specific costs and the standard federal rate. A hospital may qualify for "hold harmless" payments for its capital costs under special rules for capital projects undertaken prior to 1991. The BBA reduced the federal rate by 17.78% for all discharges after October 1, 1997, and before October 1, 2002. This reduction applies to the federal rate before the application of the adjustment factors for outliers, exceptions and budget neutrality. The BBA also rebased capital payment rates in fiscal year 1998 using fiscal year 1995 rates, and further reduced the capital payment rate by 2.1%. The BBA also reduced capital payments for PPS-exempt units to 85% of reasonable costs.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Borrower allocable to Medicare patient stays or to provide adequate flexibility in meeting the Borrower's future capital needs.

Funded Depreciation Accounts. Hospitals may maintain "funded depreciation accounts," which consists of board-designated funds set aside for the replacement of depreciated assets or for other capital purposes. The Medicare program imposes certain requirements on the use and maintenance of these funded depreciation accounts. Failure to use and maintain these accounts in accordance with the Medicare requirements may result in disallowances of reimbursement for certain interest expenses. The Borrower may from time to time make use of money in funded depreciation accounts for a variety of purposes. Because the related regulations are numerous and complex, there can be no assurance that the

Medicare program will not, as a consequence of these uses, disallow interest expense in amounts that could be material to the operations and financial condition of the Borrower.

Disproportionate Share Adjustments Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital (“DSH”) adjustment. A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital’s location, and its disproportionate low-income patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital’s classification as a DSH hospital. The BBA, as further amended by the BIPA, mandated reductions in DSH payments of 1% in fiscal year 1998, 2% in fiscal year 1999, 3% in fiscal year 2000, 2% in fiscal year 2001, and 3% in fiscal year 2002, with no adjustment in fiscal year 2003 and each year thereafter. The Omnibus Budget Bill also included additional DSH payments for certain providers in federal fiscal year 2001. The Secretary of HHS is required under the BBA to develop a new formula for calculating DSH payments. There can be no assurance that DSH payments will not be decreased or eliminated in the future. Because the Borrower routinely serves a disproportionate share of low-income patients, and such payments may account for a significant portion of the Borrower’s net income, such changes could have a material adverse effect upon the Borrower’s operations and financial results.

Outpatient Services. Section 1833(t) of the Social Security Act provides for a PPS method of reimbursement for hospital outpatient services, including hospital operating and capital costs. CMS published a final rule implementing this section on April 7, 2000. The effective date of this rule was August 1, 2000. Several Medicare Part B services are specifically excluded from this rule, including certain physician and non-physician, ambulance, physical and occupational therapy, speech language pathology and diagnostic laboratory services.

Under the hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification (“APC”) groups. Using hospital outpatient claims data from calendar year 1996 and data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the hospital outpatient PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Borrower allocable to Medicare patient care.

Physician Services. Certain physician services are reimbursed on the basis of a national fee schedule called the “resource based-relative value scale” (“RB-RVS”). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The BBA established a new limit on the growth of Medicare payments for physician services. The “Sustainable Growth Rate” (“SGR”) replaces the “Volume Performance Standard” (“VPS”). The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the “MMA”) amended the statutes to require the Secretary to evaluate the SGR. The SGR system was intended to control the volume of physician services and hence total expenditures for physician services by setting the update (change in unit payment for the year) for physician services. SGR is based on changes in the number of beneficiaries in the Medicare fee-for-service program, input prices, law and regulation, and gross domestic product (“GDP”). The GDP, the measure of goods and services produced in the United States, is used as a benchmark of how much growth in volume society can afford. The SGR compares actual spending to target spending. The SGR formula has produced updates that in some years have been too high and in others too low. Consistently, the Medicare Payment Advisory Commission (“MedPAC”) has raised concerns about the SGR when it has set updates both above and below the change in input prices. The current projection is that annual updates of negative five percent will occur for seven consecutive years. These projections make legislative alternatives to SGR very expensive.

Skilled Nursing Care Services. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government recently implemented a PPS for Medicare reimbursement to shift more of the financial risk of the cost of long-term care from the federal government to the provider. The prior system was a retrospective cost-based system.

The PPS is based upon historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The PPS applies to cost report periods beginning on or after July 1, 1998. For the first three years of

implementation (referred to as the “Transition Period”), the prospective payment was a blend of a “facility-specific per diem rate” and an “adjusted federal per diem rate.” Under the BIPA, a facility could elect immediate transition to the federal rate, effective for cost reporting periods beginning October 1, 2000.

In addition to the PPS, the BBA enacted consolidated billing for certain Medicare Part B services. Under consolidated billing, the Part B payment will be made to the facility whether the item or service was furnished by the facility or by others under arrangement. The services excluded from the consolidated billing requirement include physician services, physician services provided by a physician’s assistant, a nurse practitioner or certified nurse specialist, nurse-midwife services, certain dialysis supplies, erythropoietin for dialysis patients and transportation costs for electrocardiogram equipment. Effective October 1, 2001, consolidated billing requirements are limited to Part A services and Part B therapy services furnished to residents in Part A-covered stays.

Home Health Care Services. Historically, Medicare reimbursed home health agencies for both operating and capital expenses incurred in providing each covered home health service on a reasonable cost basis, subject to certain limits. The BBA, however, required the Secretary of HHS to develop a prospective payment system for all home health services (“Home Health PPS”). On July 3, 2000, CMS published the final rule, effective October 1, 2000, implementing Home Health PPS. Under the rule, Medicare pays home health agencies for 60-day episodes of care and reimburses agencies at higher rates for beneficiaries with greater needs. Home Health PPS uses national payment rates that range from about \$1,100 to \$5,900, depending upon the intensity of care required by each beneficiary, adjusted to reflect area wage differences. Medicare also pays an agency 60% of the initial episode payment when the agency accepts new Medicare patients as part of a streamlined approval process. Under the rule, Medicare pays home health agencies: (1) for an unlimited number of medically necessary episodes of care; (2) at a higher rate to care for those with greater needs; payment rates are based upon relevant data from patient assessments conducted by clinicians (who do not have to be physicians), as already required for all Medicare-participating home health agencies; (3) based upon verbal orders on the initial billing; and (4) other suppliers separately for medically necessary durable medical equipment provided under the home health plan of care (in the Balanced Budget Refinement Act of 1999 (“BBRA”), Congress eliminated an earlier law that would have required agencies to bill for this equipment, even if outside suppliers provided it).

Ambulatory Surgical Center Services. Medicare pays for ambulatory surgical center (“ASC”) services on the basis of prospectively determined rates. These rates are updated annually by the consumer price index (“CPI”). The BBA set the updates for fiscal year 1998 through fiscal year 2001 at the increase in the CPI minus 2%, but not below zero. The BBRA requires phasing-in over three years new ASC rates based upon pre-1999 survey data. Pursuant to the BIPA, the HHS Secretary could not implement the revised prospective payment system for ASCs before January 1, 2002. The MMA revised the Secretary’s guidelines for determining ASC payments. Effective April 1, 2004, the rates were updated ascending to the CPI-U (All Urban Consumers US City Average) estimated as of March 31, 2003, minus 3.0 percentage points. In the last fiscal quarter of 2005 and the calendar years 2006 through 2009, the update will be 0%. The Secretary will then revise the payment system for ASC surgical services. The Secretary is required to implement the changes on or after January 1, 2006, and not later than January 1, 2008. In the MMA, Congress instructed CMS to prohibit physician-investor referrals to specialty hospitals for a period of 18 months, ending June 8, 2005, unless the hospitals were already under development as of November 18, 2003. During the moratorium, MedPAC and HHS conducted separate studies, with MedPAC focusing on payment issues raised by specialty hospitals, and HHS focusing on referral patterns, quality of care, and impact of the provision on uncompensated care. MedPAC submitted its report and recommendations on March 8, 2005 and HHS submitted its report and recommendations on May 12, 2005. In its May 12, 2005 report, CMS outlined four recommendations concerning specialty hospitals. Specifically, CMS recommended redefining payment rates for ASC services. Payment reforms are expected by January 2008.

Graduate Medical Education. Medicare reimburses teaching hospitals for the direct and indirect costs of their approved graduate medical education (“GME”) programs. Medicare reimburses direct GME costs, which include resident salaries, fringe benefits and physician compensation costs for teaching activities, based upon the hospital’s “cost per resident,” as determined in the hospital’s base year (and as defined in the regulations). Medicare pays hospitals an additional amount for indirect GME costs, which include costs attributable to increased diagnostic testing and higher staffing ratios. The BBA provides for reductions in payments for both direct and indirect GME payments.

The MMA states that the geographically adjusted national average will not be updated from fiscal year 2004 through fiscal year 2013 for hospitals with resident amounts above 140%.

Provider-Based Standards. CMS issued in its hospital outpatient PPS rule, published April 2000, specific standards related to whether an entity qualifies as “provider-based” rather than “freestanding.” The new standards make it more difficult to qualify as “provider-based” and are aimed at stemming the proliferation of entities characterized as “provider-based.” Those standards are applicable for provider cost reporting periods beginning on or after January 10, 2001. The Omnibus Budget Bill further restricts the application of those rules for certain entities. These standards may lead to the reclassification of entities now characterized as “provider-based” to “freestanding.” Such a reclassification may adversely affect the entity’s reimbursement under the Medicare program. Management believes the new standards have not resulted in any material adverse effect upon the Borrower’s operations and financial results.

Medicare Advantage (formerly Medicare+Choice). Part C of the Social Security Act established under the BBA allows Medicare beneficiaries (other than those suffering from end stage renal disease) to obtain Medicare coverage under the original fee-for-service Medicare program (paid under Medicare Parts A and B), or under a Medicare+Choice plan. The MMA redesigned the Medicare+Choice program, and renamed it “Medicare Advantage.” A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO, as defined herein), a provider sponsored organization (“PSO”) (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account (“MSA”) and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a capitated monthly payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Borrower’s hospitals must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (that is, that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

Payments for direct and indirect GME are “carved out” of the payments to Medicare Advantage plans for five years; during that time an additional payment will be made to hospitals for direct GME and for indirect medical education costs with respect to Medicare managed care enrollees for cost reporting periods beginning on or after January 1, 1998. DSH payments, however, will not be carved out of the Medicare Advantage plan payment.

Several Medicare Advantage plans have been abandoned in other markets and such programs nationally have enjoyed only limited success. There can be no assurance that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Borrower’s hospitals.

Beginning January 1, 2004, the payment rule for beneficiaries in a short-term general hospital at the time they either elect to enroll in or to terminate their enrollment in a Medicare Advantage plan, is extended to a beneficiary in a rehabilitation hospital, a distinct-part rehabilitation unit, or a long-term care hospital. For beneficiaries leaving their Medicare Advantage plan while receiving these inpatient hospital services, this provision expands the rule that disallows payment for such services under fee-for-service payments for inpatient hospitals. Under the expansion, payments are prohibited from any type of payment provision under Medicare for inpatient services, for the type of facility, hospital, or unit involved.

Medicare Audits; Enforcement Actions. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payments in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the Federal False Claims Act or other federal statutes, subjecting the Borrower or its hospitals to civil or criminal sanctions. Management of the Borrower is not aware of any situation in which a material Medicare payment is being withheld from the Borrower.

There is an expanding and increasingly complex body of laws, regulations and policies relating to Medicare that is not directly related to Medicare payments. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducement of business or referrals, all of which carry potentially significant penalties for noncompliance.

Medicaid

General. Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. It covers approximately 36 million people, including children, the aged, blind, disabled, and individuals who are eligible to receive federally assisted income maintenance payments. Pursuant to broad federal guidelines, the states and the United States territories (Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Mariana Islands) each (1) establish their own eligibility standards; (2) determine the type, amount, duration, and scope of services; (3) set the payment rates for services; and (4) administer their own programs. As an alternative to Medicaid, some states operate under a waiver of some basic Medicaid requirements.

Through the Medicaid program the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. The BBA added language to the Social Security Act that permits states to restrict choice of insurer by offering a choice between at least two managed care organizations or primary care case managers. CMS approval of all managed care organization contracts under the BBA is still required for these programs before federal financial participation and payments may be made under such contracts. In addition to existing requirements, these contracts are subject to new provisions contained in the BBA, including increased beneficiary protections, quality assurance standards, and timely payment requirements.

Under the now-repealed Boren Amendment, a state plan for medical assistance was required to provide for payment of inpatient hospital or nursing facility services through the use of rates that were reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers in order to provide care and services in conformity with applicable state and federal laws and regulations and quality and safety standards.

In 1997, the BBA repealed the Boren requirements and replaced them with a requirement that states implement a public process when changes in payment rates or methodologies are proposed. The BBA allows for cuts in reimbursement to Medicaid health care providers of \$1.25 to \$1.5 billion over five years. The public process requirement applies to rates established on or after the October 1, 1997, effective date.

Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to providers for payment of services rendered to Medicaid beneficiaries. Currently, Medicaid nursing facility payments are generally made using one of three payment systems (that is, cost based, per diem or case mix). There is a greater use of prospective payment systems (per diem or case mix) than cost-based systems for nursing facility services. In addition, Medicaid inpatient hospital payments are generally made under a DRG prospective payment Borrower on a per discharge basis. Although the payment systems can be categorized in general terms, the specific methodology varies from state to state.

As of December 31, 2004, Medicaid patients represented approximately 13% of the gross patient charges for the Borrower. Certain aspects of the Indiana Medicaid program are described below.

Indiana Medicaid Program. Since a portion of the Medicaid program's costs in Indiana are paid by the State, the absolute level of Medicaid revenues paid to the Borrower, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to hospitals, changes in eligibility requirements for Medicaid recipients and delays of payments due to hospitals. Any such action taken by the State could have a material adverse effect upon the Borrower's operations and financial results.

Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals using a DRG system that bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs, as determined under Medicare cost reimbursement principles, and limited such reimbursement by allowing increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Effective March 1, 1994, the Indiana Medicaid Program adopted a rule establishing an outpatient payment system that reimburses hospitals based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based upon an aggregate “cost-to-charge” ratio, with no year-end costs settlement. Consequently, no assurance can be given that Medicaid payments received or to be received by the Borrower will be sufficient to cover costs for inpatient and outpatient services, debt service obligations or other expenses otherwise eligible for reimbursement.

The Office of Medicaid Policy and Planning is in the process of implementing mandatory risk-based managed care enrollment for current PrimeStep Hoosier Healthwise managed care members. Howard County is a part of this program and the Borrower has entered into a contract with a managed care organization to provide services to Medicaid managed care enrollees.

Certain Indiana hospitals that serve a disproportionate share of Medicaid and low-income patients may be eligible to receive “disproportionate share payment adjustments” or “significant disproportionate share payment adjustments” and may qualify for additional enhanced disproportionate share payments, as well as indigent care payments. The disproportionate share adjustment and significant disproportionate share adjustment are percentage add-ons to the regular hospital reimbursements based upon each hospital’s Medicaid and low-income patient utilization. The enhanced disproportionate share adjustment provides additional funds to eligible hospitals based upon their Medicaid discharges and patient days. Indigent care payments provide funds for the treatment of eligible individuals based upon each inpatient day.

State Laws and Regulations

States are increasingly regulating the delivery of health care services in response to the federal government’s failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and to oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. A number of states, for example, recently have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting “gag clauses” (contract provisions that prohibit providers from discussing various issues with their patients); laws defining “emergencies,” which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Borrower could be subject to a variety of state health care laws and regulations affecting both managed care organizations and health care providers. In addition, the Borrower could be subject to state laws and regulations prohibiting, restricting or otherwise governing preferred provider organizations, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the “corporate practice of medicine;” selective contracting (“any willing provider” laws and “freedom of choice” laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Borrower chooses to engage in transactions subject to such laws, or is considered by a state in which it operates to be engaging in such transactions, the Borrower may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs and risks upon the Borrower.

Proposed and Potential Federal and State Legislation

The Borrower is subject to a wide variety of federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare and Medicaid programs and other third-party payors, and actions by, among others, the Department of Health and Human Services, the Internal Revenue Service, the Office of the Inspector General, the National Labor Relations Board, the Joint Commission of Accreditation of Healthcare Organizations, and other federal, state and local governmental agencies. There can be no assurance that such agencies

and legislative bodies may not make regulatory or legislative policy changes that could produce adverse effects upon the ability of the Borrower to generate revenues or upon the utilization of its health facilities.

Wide variations of bills and regulations proposing to regulate, control or alter the method of financing healthcare costs are often proposed and introduced in Congress, state legislatures and regulatory agencies. Legislation or regulatory actions have been enacted, proposed or discussed which would, among other things:

- Condition the use of tax-exempt financing and the receipt of certain Medicare funding on hospital acceptance of Medicaid patients;
- Condition tax exemption on furnishing a full-time emergency room and deny tax exemption for any period of time during which a hospital's Medicare provider agreement is terminated or suspended due to a violation of the emergency medical screening and transfer requirements;
- Condition tax exemption on provision of certain levels of charity care;
- Set new standards for medical staff peer review, potentially increasing hospital exposure to litigation and liability regarding medical staff disputes;
- Prohibit many hospital-physician joint business ventures that are typical of the healthcare industry, and limit the permissibility of many other hospital-physician employment, contractual and business relationships;
- Effectively reintroduce a new federally mandated health planning process through which capital improvements would require more extensive government approval;
- Prohibit patient referral arrangements for items or services between physicians and providers in which referring physicians have certain financial interests;
- Increase the probability of labor union organization and activity in the healthcare industry;
- Restrict rate increases by private hospitals;
- Shift funding for Medicaid to block grants to the states; and
- Impose provider taxes on hospitals at the federal level or in one or more states.

This list is not comprehensive, and there could be new proposals or regulatory approaches introduced. Because of the many possible financial effects that could result from enactment of any bills or regulatory actions proposing to regulate the healthcare industry, it is not possible to predict the effect on the Borrower's operations or financial results of such bills or regulatory actions.

Federal Medicare/Medicaid Anti Fraud and Abuse Laws

The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (also referred to as the "Anti-Kickback Law") prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration in order to induce business for which reimbursement is provided under the Medicare, Medicaid and other federal health care programs, including any program or plan funded in whole or in part by the federal government (except the federal employee health benefit program). The scope of prohibited payments under the Anti-Kickback Law is so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by officials of the HHS Office of Inspector General ("OIG")) that they may create liability in connection with a wide variety of business transactions and other hospital-physician relations that have been traditional or commonplace within the health care industry including the Borrower. Limited statutory exceptions and "safe harbor" regulations define a narrow scope of activities that will be exempted from prosecution or other enforcement action. Activities that fall outside of the

safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties.

Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to achieve substantial compliance with the Anti-Kickback Law. The failure of an arrangement to meet a safe harbor's requirements does not mean that the arrangement violates the Anti-Kickback Law. Such an arrangement may be subject to closer scrutiny than an arrangement that complies with a safe harbor.

Violations of the Medicare anti-fraud and abuse laws may result in civil and criminal penalties. Civil penalties for violations of the anti-fraud provisions include temporary or permanent exclusion from the Medicare and the Medicaid programs (which accounts for a significant portion of revenue and cash flow of most hospitals, including the Borrower). In addition to the civil monetary penalties under the Anti-Kickback Law, the BBA created a new civil monetary penalty for violations of the Anti-Kickback Law for cases in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations result in damages of three times the remuneration involved as well as a penalty of \$50,000 per violation.

If determined adversely to the Borrower, any enforcement action could have a material adverse effect upon the Borrower's operations and financial results. These penalties may be applied to many situations in which hospitals and physicians conduct joint business activities, physician recruiting and retention programs, various forms of hospital assistance to medical practices or the physician contracting entities, physician referral services, hospital physician service or management contracts, and space or equipment rentals between hospitals and physicians. The Borrower will likely conduct many activities of these general types or similar activities, which may pose varying degrees of risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the HHS Office of Inspector General, which is charged with enforcement.

Hospitals often engage in programs that waive certain Medicare coinsurance or deductible amounts. Many such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action. The extent to which challenges or prosecutions of hospitals involved in these programs may be initiated is uncertain, as is the ultimate outcome. If an agency or court were to conclude that such waivers violated applicable laws or regulations and the Borrower were found to engage in such programs, there is a possibility that the Borrower could be excluded from participation in the Medicare and the Medicaid programs; be assessed fines and penalties, which could be substantial; and that Medicare payments might be withheld from the Borrower.

Medicare also requires that certain financial information be reported on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. These requirements are numerous, technical and complex and there can be no assurance that the Borrower may not incur such penalties in the future. With respect to certain types of classifications of information, the False Claims Act and other similar laws may be violated merely by reason of inaccurate or incomplete reports if it is determined that the entity submitting such claims or reports knew or should have known that such reports were incorrect. As a consequence, errors or omissions made in the ordinary course of business may result in liability. New billing systems, new medical procedures and procedures for which there is not clear guidance from CMS or other regulatory authorities may all result in liability under federal false claim prohibitions, including the False Claims Act and other similar laws. These penalties may have a material adverse effect upon the Borrower's operations and financial results, and could include criminal or civil liability for making false claims and exclusion from participation in the Medicare program.

The False Claims Act provides that a private individual may bring a civil action on behalf of the United States government. These actions are referred to as *Qui Tam* actions. By initiating a *Qui Tam* action, an individual could sue a hospital on behalf of the U.S. government if the individual believes that the hospital has committed fraud. If the government proceeds with an action brought by the individual, then the individual could receive as much as 25% of any money recovered. Future *Qui Tam* actions could be brought against the Borrower.

“Self-Referral” Prohibitions

The Omnibus Budget Reconciliation Act of 1993 (the “1993 Budget Act”) expanded the scope of provisions originally enacted in 1989 (commonly referred to as the “Stark Law”). The 1993 Budget Act specifically prohibits any physician having a “financial relationship” with an entity from making a referral to that entity, and prohibits the entity from billing the Medicare (or the Medicaid) program for the furnishing of certain “designated health services” for which payment otherwise would be made under the Medicare or the Medicaid programs (unless that relationship meets an exception). Violations may result in exclusion from the Medicare and the Medicaid programs, denial of payment, refund of payments received or fines of up to \$15,000 per service or \$100,000 per financial relationship. The Borrower’s hospitals have various relationships with physicians that may be characterized as “financial relationships” under the Stark Law, but the Borrower has taken what it believes are appropriate measures to ensure compliance with the Stark Law.

The CMS has been in the process of modifying the “whole hospital” exception to the Stark Law. The “whole hospital” exception to the Stark Law provides that a physician may own or invest in a hospital as long as the physician ownership is in the hospital itself (rather than a subdivision of the hospital) and the physician is authorized to perform services at the hospital. CMS has stated that the purpose of the rule would be to revise the Stark regulations to specify that, for purposes of the physician self-referral prohibition, certain physician ownership or investment interests in specialty hospitals would not qualify for the “whole hospital” exception. Recently, the MMA established an 18-month moratorium on physician ownership of or investment in certain specialty hospitals. The moratorium was in effect from December 8, 2003, through June 7, 2005. As the moratorium only ended recently, it is difficult to know what impact this may have on the Borrower. There can be no assurance that this proposal or other similar proposals would not have a material adverse effect on joint ventures the Borrower has entered into and on the Borrower’s operations and financial results.

Civil Monetary Penalties Laws and Other Federal Fraud Provisions

Under the Civil Monetary Penalties Law of the Social Security Act (the “CMP Law”), civil monetary penalties may be imposed against any person who knowingly presents or causes to be presented a claim (1) for items or services not provided as claimed (including coding), (2) that is false or fraudulent, (3) for services provided by an unlicensed or uncertified physician, (4) for items or services provided by an excluded person or (v) for items or services that are not medically necessary. Penalties include up to \$10,000 for each item or service claimed plus an assessment of up to three times the amount claimed for each item of service. The CMP Law applies to all federal health care programs. Enforcement activity in this area appears to be increasing, and enforcement authorities may be adopting more aggressive approaches. In the current regulatory climate, it should be expected that many hospitals, possibly including the Borrower’s hospitals, and physician groups will be subject to an investigation or inquiry regarding billing practices and false claims.

Enforcement authorities are in a position to compel settlements by providers charged with false claims violations by withholding or threatening to withhold Medicare, Medicaid and similar payments and by threatening criminal action. In addition, the cost of defending such actions, including the time spent by management to attend to the matter, and the facts of a particular case may dictate settlement.

In addition to the CMP Law provisions and those of the BBA discussed above, the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established a variety of provisions designed to control fraud and abuse in government programs and to strengthen enforcement capabilities. HIPAA created new health care crimes, expanded the Medicare and the Medicaid exclusion provisions to provide reciprocal exclusion of entities and individuals with ownership or controlling interests in such entities and increased civil monetary penalties for a variety of actions.

On September 15, 2003, HHS published a Proposed Rule entitled, “Clarifying the Terms and Application of Program Exclusion Authority for Submitting Claims Containing Excessive Charges,” submitted by the Office of the Inspector General (“OIG”). The proposed rule allows exclusion of an individual or entity from federal health care program participation if items or services have been furnished in excess of a patient’s needs, or of a quality that does not meet professional standards; or any charge or cost submitted for payment that is more than 120% of the entity’s usual charge or cost for the service or item. However, if the item/service is subject to a payment cap (*e.g.*, fee schedule amount) the

charge will be deemed to be the lower amount represented by the fee schedule or the proposed charge. The proposed rule provides an extensive definition of “usual charge.” It also cites situations in which above normal charges are allowable.

Emergency Medical Treatment and Active Labor Act

In response to concerns regarding inappropriate hospital transfers of emergency patients based upon the patient’s inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”), commonly known as the “anti-dumping statute.” EMTALA, among other things, imposes certain requirements that must be met before transferring a patient to another facility. Failure to comply with EMTALA can result in exclusion from the Medicare and the Medicaid programs as well as civil and criminal penalties.

A final rule describing hospitals’ responsibilities regarding treatment emergencies became effective November 20, 2003. CMS issued an Interim Guidance Document (S&C-04-10) for the EMTALA final rule. Material provisions include:

- (a) Codification of existing policy prohibiting a hospital from seeking authorization from an insurance company until a medical screening exam has been provided and stabilization treatments have been initiated.
- (b) Individuals presenting at a hospital’s main campus that is not a dedicated Emergency Department (“ED”) must receive a medical screening only if requested, or where a prudent layperson observer would conclude that emergency treatment was necessary.
- (c) EMTALA does not apply when a request for emergency treatment is made at a hospital department that is off main campus and is not a dedicated ED.
- (d) There is no EMTALA obligation to an individual who has begun to receive services as part of a scheduled outpatient encounter.
- (e) The EMTALA obligation ends when an individual has been admitted for inpatient services regardless of whether or not the person has been stabilized.
- (f) The new rule eliminates the applicability of EMTALA to off-campus outpatient clinics that do not routinely provide emergency services.
- (g) Hospital-owned ambulances, operating under community-wide protocols, which are directed to take the individual to other hospitals than the hospital that owns the ambulance are not subject to EMTALA.

The MMA modified EMTALA by determining payment for EMTALA-mandated screening and stabilization services. The modifications apply to items and services furnished on or after January 1, 2004. Any item or service that is required to be furnished to an individual who is entitled to benefits is to be considered to be reasonable and necessary based on the information available to the treating physician at the time the service was ordered or furnished rather than the patient diagnosis. Further, the frequency with which the item or service was provided before or after the visit is not a consideration.

Failure of the Borrower to meet its responsibilities under EMTALA could have a material adverse effect upon the Borrower’s operations and financial results.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as others. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants. At various times,

the Borrower may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, division of services and use of a hospital's local market power for entry into related health care businesses.

From time to time, the Borrower is or will be involved with some or all of these types of activities, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Borrower may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent upon myriad factual matters that may change from time to time. A U.S. Supreme Court decision allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case.

The Borrower will work with, rely upon and sometimes invest in medical groups or medical group management companies. If any of these medical groups or management companies is determined to have violated the antitrust laws, the Borrower also may be subject to liability as a joint actor, or the value of any investment in such group or company may be affected.

Environmental and Occupational Health and Safety Laws & Regulations

Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are: (1) air and water quality control requirements; (2) waste management requirements; (3) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; (4) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospitals; and (5) requirements for training employees in the proper handling and management of hazardous materials and wastes. In its role as an owner and operator of properties or facilities, the Borrower may be subject to liability for removing and disposing of any hazardous substances that have come to be located on such properties or in such facilities, including any such substances that may have migrated off of the property. Typical hospital operations include, in various combinations, the handling, use, storage, transportation, disposal, and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, and contaminants. For this reason, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations or increase their costs or both; may result in legal liability, damages, injunctions, or fines; or may trigger investigations, administrative proceedings, penalties, or other government agency actions. There can be no assurance that the Borrower will not encounter such risks in the future, and such risks may have a material adverse effect upon the Borrower's operations and financial results.

Commercial Insurance and Managed Care Plans

Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" ("PPOs"). Under such plans, there may be financial incentives for subscribers to use only hospitals that contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("HMOs"), private payors limit coverage to those services provided by selected hospitals. With this contracting authority, private payors may direct patients away from unselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a DRG, discounted fee-for-service basis or on a discounted fixed rate per day of care. Many healthcare providers, including the Borrower, do not have accurate information about their

actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or a PPO contract may vary significantly from projections. Therefore, the future financial consequences of such contracts may be unknown and their effect upon the financial condition of the Borrower may be different in the future than that reflected in the financial statements set forth in this Official Statement.

Some HMOs offer and mandate a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each HMO enrollee who is “assigned” to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to the HMO’s enrollees. In some cases, the capitated payment covers total patient care provided, including the physician’s component. If payment under an HMO or a PPO contract is insufficient to meet the hospital’s costs of care, the financial condition of the hospital may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Furthermore, HMO contracts may contain a requirement that the hospital care for HMO enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital.

The Borrower currently has contracts with HMOs, PPOs and other managed care providers. Such programs individually negotiate payment terms with the Borrower, including DRG, discounted fee-for-service payments or discounted fixed rate per day of care payments. There is no assurance that the Borrower will maintain these contracts or obtain other similar contracts in the future. Failure to maintain these managed care contracts could have the effect of reducing the patient base or gross revenues of the Borrower. Conversely, participation may maintain or increase the patient base, but may result in reduced payment and lower net income to the Borrower. Furthermore, the effect of these contracts on the consolidated financial statements of the Borrower may be different in the future than that reflected in the consolidated financial statements for the current period.

The Borrower’s ability to develop and expand its services and, therefore, its profitability, is dependent upon the Borrower’s ability to enter into contracts with HMOs, PPOs and other third-party payors at competitive rates. There can be no assurance that the Borrower will be able to attract third-party payors, and where it does, no assurance that it will be able to contract with such payors on advantageous terms. The inability of the Borrower to contract with a sufficient number of such payors on advantageous terms could have a material adverse effect upon the Borrower’s operations and financial results. While the Borrower employs a system to control health care service utilization and increase quality, the Borrower cannot predict changes in utilization patterns or the system’s effect on health care providers. Further, termination, or expiration without renewal, of such contracts could have a material adverse effect on the Borrower’s operations and financial results. There can be no assurance that such contracts will be renewed upon expiration or not be terminated prior to expiration.

As of December 31, 2004, patients from HMOs and PPOs represented approximately 16.93% of the gross patient charges by the Borrower.

Integrated Delivery Systems

General

Many hospitals and health systems are pursuing strategies with physicians to offer an integrated package of health care services, including physician hospital services, to patients, health care insurers, and managed care providers. These integration strategies take many forms, several of which are discussed below. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities.

Affiliations, Mergers, Acquisitions and Dispositions

The Borrower plans for, evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development processes. Currently, the Borrower is affiliated with other for-profit entities. In certain instances, such affiliates may conduct operations that are of strategic importance to the Borrower, or their operations may subject the Borrower to potential legal or financial liabilities.

The Borrower, from time to time, receives offers from, or conducts discussions with, third parties about the potential acquisition of operations or properties that may become part of the Borrower in the future, or about the potential sale of some of the Borrower's operations and properties. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use are held on a frequent, and usually confidential, basis with other parties and may include the execution of non-binding letters of intent. As a result, it is possible that new hospitals or other health care operations will be added to the Borrower in the future, and that the organizations and assets that make up the Borrower may change from time to time, subject to the provisions in the Master Indenture and other financing documents that apply to mergers, sales, dispositions or purchases of assets, or with respect to joining or withdrawing from the Obligated Group.

Physician Contracting and Relations

The Borrower may wish to contract with physician organizations ("POs") (for example, independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with POs. In addition, the Borrower employs approximately 16 full-time physicians in response to industry trends in the markets it serves. This number includes primary care, pediatrics, neurology, internal medicine, and occupational medicine.

The success of the Borrower will be partially dependent upon its ability to attract physicians to join the POs and to attract POs to participate in the Borrower's network, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the Borrower will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. Without empaneling a sufficient number and type of providers in the Borrower's system, the Borrower could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect upon the Borrower's operations and financial results.

Possible Increased Competition

The Borrower may face increased competition in the future from other hospitals, from skilled nursing facilities, and from other forms of health care delivery or payment plans that offer health care services to the population that the Borrower presently serves. Increased competition may result from the construction of new, or the renovation of existing, hospitals, specialty hospitals, skilled nursing facilities, ambulatory surgical centers, free-standing emergency facilities, and private laboratory and radiological services facilities, and the formation of various types of integrated delivery systems.

Increased competition may also result from forms of health care delivery systems that offer lower-priced services to the population served by the Borrower. Within the Borrower's service area, these services could displace some of the revenue-generating services presently offered by the Borrower. The services that could serve as substitutes for the Borrower's treatment include, among others, specialty hospitals, such as cardiac care hospitals and children's hospitals; specialized nursing facilities; home health care; intermediate nursing home care; preventive care; and drug and alcohol abuse programs.

Regulation of the Health Care Industry

General

The health care industry is highly dependent upon a number of factors that may limit the ability of the Borrower to meet its obligations under the Loan Agreement, the Master Indenture and the Series 2005 Notes. Among other things, participants in the health care industry (such as the Borrower) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Certain of these factors, which could have a significant effect on the future operations and financial condition of the Borrower, are discussed below.

Balanced Budget Act of 1997

As described below, the Balanced Budget Act of 1997 (the “BBA”) contains a number of provisions that affect the Borrower.

Mandatory Exclusion. Under the BBA, those convicted of three health care-related crimes face mandatory, permanent exclusion from any federal health care program. Those convicted of two crimes will face a mandatory ten-year exclusion. The Secretary of HHS will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be “inconsistent with the best interests” of the program’s beneficiaries.

Post-Hospital Referrals. The BBA expanded the requirements that hospitals have a discharge planning process, including information on the availability of home health services and providers in the area. Each plan must also identify any entity or provider to whom a patient is referred in which the hospital has a “disclosable financial interest.”

Certain Discharges to Post Acute Care. The BBA established that hospital discharges to related skilled nursing facilities occurring on or after October 1, 1998, that fall within a specified cluster of ten high volume/high post-acute use DRGs will be considered a transfer for payment purposes.

Asset Loss Recognition. Another provision of the BBA eliminated the allowance for return on equity capital and eliminated the depreciation adjustment that allowed for recognition of gain or loss on dispositions of assets used in the provision of certain patient care services.

Provider-Sponsored Organization Tax Rules. Under the BBA, a tax-exempt organization shall not fail the organizational and operational prongs of the charitable purpose test “solely” because a hospital that it owns or operates participates in a Provider Sponsored Organization (“PSO”). The law also states, however, that any person with a material financial interest in a PSO shall be treated as a private shareholder or individual with respect to the hospital. As a result of this provision, a tax-exempt hospital participating in a PSO may be placed in greater jeopardy of losing its tax-exempt status if individuals connected with the PSO derive inappropriate financial benefits from it.

The BBA created the most comprehensive changes in Medicare reimbursement since the program began in 1966. These changes caused revenue from several Medicare programs to be reduced. For Federal fiscal year 2001, a Medicare relief package was passed to include an inpatient and outpatient payment update for hospitals, which also increased Medicare reimbursement for hospitals’ bad debt and payments for medical education.

HIPAA Administrative Simplification Provisions

HIPAA mandates the adoption of standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the health care industry. The administrative simplification provisions of HIPAA have caused and will continue to cause significant and costly changes in health care. These provisions require new security measures, set standards for electronic signatures, standardize a method for identifying providers, employers, health plans and patients, require that the health care industry utilize the most efficient method to codify data and significantly change the manner in which hospitals communicate with payors.

Pursuant to HIPAA, the Secretary of HHS issued final regulations addressing the confidentiality of individuals’ health information that required health care organizations to be fully compliant with the new privacy rules by April 2003. In addition, health care organizations were required to comply with a final regulation mandating the use of standard electronic transactions to communicate health data by October 2002. Health care organizations that applied for a one year extension of this deadline had until October 2003 to comply with the standard electronic transactions regulations. Final security regulations were published February 2003, and health care organizations had until 2005 to set a plan for compliance with the security regulations. Sanctions for failure to comply with HIPAA include criminal penalties and civil sanctions.

Management of the Borrower believes that it is substantially compliant with the privacy and standard electronic transactions measures.

Taxpayer Relief Act of 1997

The Taxpayer Relief Act of 1997 tightened the ownership rules for determining whether certain types of income received from subsidiaries are subject to the unrelated business income tax (“UBIT”). Under prior law, tax-exempt organizations were required to pay tax on rents, royalties, annuities, and interest income only if such income was received from a taxable or tax-exempt subsidiary that was at least 80% controlled by the tax-exempt organization. Nevertheless, UBIT did not apply if the income came from a “second-tier” subsidiary (*i.e.*, a subsidiary owned by a subsidiary).

Under the law, such income is subject to UBIT if the parent organization owns more than 50% of the subsidiary, based upon voting power or value. In addition, a parent exempt organization is deemed to control any subsidiary that it controls either directly or indirectly (for example, as a second-tier subsidiary). The 50% control test took effect for taxable years beginning after December 31, 1998. This provision may force some multi-member health care systems to choose between maintaining control and incurring UBIT liability where business considerations dictate the use of intra-system loans, leases, and licensing arrangements. Borrower management states that these provisions had no material impact on the net unrelated business income tax of the Borrower.

Tax-Exempt Status

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the Internal Revenue Service (“IRS”). The Authority and the Borrower will covenant in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Borrower to comply with any of these covenants may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. See “TAX MATTERS.”

Other Risk Factors

The following factors, among others, may also affect the operations or financial performance of the Borrower:

(a) Competition from hospitals located within and outside of the Borrower’s service area, from other types of health care providers that may offer comparable health care services, and from alternative or substitute health care delivery systems or programs, may decrease utilization of the Borrower’s facilities. See APPENDIX A for a discussion of the organizations that the Borrower considers to be the major competing hospitals within the Borrower’s service area.

(b) Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care.

(c) Development of health maintenance organizations, preferred provider organizations, or other managed care or integrated delivery systems and requirements of labor contracts, legislation, or employers encouraging or requiring the use of such organizations as an alternative to the use of Borrower facilities and similar institutions for the delivery of health care services.

(d) Cost increases without corresponding increases in revenue could result from, among other factors: increases in salaries, wages, and fringe benefits of hospital employees, increases in costs associated with advances in medical technology or with inflation or future legislation that would prevent or limit the ability of the Borrower to increase revenues.

(e) Any termination or alteration of existing agreements between the Borrower and individual physicians and physician groups who render services to the Borrower's patients or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the Borrower's patients with whom the Borrower does not have contractual arrangements.

(f) Future contract negotiations with public and private insurers and other efforts of these insurers and of employers to limit hospitalization costs and coverage could adversely affect the level of reimbursement to the Borrower.

(g) The ability of, or the cost to, the Borrower to continue to insure or otherwise protect itself against malpractice and general liability claims.

(h) Future legislation and regulations affecting hospitals, their tax-exempt status, governmental and commercial medical insurance and the health care industry in general could have a material adverse effect upon the Borrower's operations and financial results.

(i) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Borrower.

(j) An inflationary economy and difficulty in increasing room charges and other fees charged while at the same time maintaining the amount or quality of health services may affect the ability of the Borrower to maintain sufficient operating margins.

(k) The cost and effect of any future unionization of any of the Borrower's employees.

(l) The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive, both as to rates and charges, as well as quality and scope of care, could have a material adverse effect upon the Borrower's operations and financial results.

(m) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970's.

(n) Limitations on the availability of and increased compensation necessary to secure and retain nursing, technical or other professional personnel.

(o) Changes in law or revenue rulings governing the not-for-profit or tax-exempt status of charitable corporations, such that not-for-profit corporations such as the Borrower, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charges or to discontinue services previously provided.

(p) Efforts by taxing authorities to impose or increase taxes related to the property and operations of nonprofit organizations or to cause nonprofit organizations to increase the amount of services provided to indigents to avoid the imposition or increase of such taxes.

(q) Proposals to eliminate the tax-exempt status of interest on bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, have been made in the past, and may be made again in the future. The adoption of such proposals would increase the Borrower's cost of financing future capital needs.

(r) Increased unemployment or other adverse economic conditions that could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy in the Borrower's service area or by the closing of operations of one or more major employers in the service area may result in a significant change in the demographics of the service area, such as a reduction in the population.

(s) Increased incidence of diseases such as AIDS, which may result in the treatment by the Borrower of increased numbers of patients without adequate insurance to cover the significant and sustained costs of such care.

(t) Increases in the cost of complying with applicable federal and state regulations governing the precautions that must be followed by employees who come into contact with blood or body fluids or other infectious diseases such as tuberculosis.

(u) Construction risks, including delays in construction schedules and cost overruns.

Certain Other Matters Relating to Security for the Bonds

Certain Matters Relating to Security for the Bonds. The facilities of the Borrower are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default which results in the acceleration of any Bonds, the Master Trustee may not realize an amount sufficient to pay in full the obligations, including those in respect of the outstanding Bonds, from the sale or lease of such facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Borrower, or otherwise.

Amendments. Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the principal amount of the outstanding Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than a majority of the principal amount of Notes Outstanding under the Master Indenture. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture, the holders of the requisite percentage of outstanding obligations may be composed wholly or partially of the holders of additional Notes.

Pledge of Gross Revenues. The effectiveness of the security interest in the Gross Revenues of the Borrower granted in the Master Indenture may be limited by a number of factors, including (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting the assignment of receivables due under the contracts with third party payers, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Bond Trustee, in the event of the bankruptcy of the Borrower, to collect and retain revenues due the Borrower from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of revenues with other moneys of the Borrower not so pledged under the Master Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the revenues of the Borrower which are earned by the Borrower within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after, any effectual institution of bankruptcy proceedings by or against the Borrower; (ix) rights of third parties in revenues converted to cash and not in the possession of the Bond Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code as from time to time in effect.

Matters Relating to Enforceability of the Master Indenture. The obligations of the Borrower under the Notes will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The joint and several obligations described herein of Obligated Group to make payments of debt service on Notes issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (a) are requested to make payments on any Notes which are issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (c) would result in the cessation or discontinuation of any material portion of the health care

or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws.

A Member of the Obligated Group may not be required to make any payment to provide for the payment of any Master Note, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such transfer would render the member of the Obligated Group insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such transfers from a Member of the Obligated Group in order to pay debt service on the Notes may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member of the Obligated Group, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on a Note for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the Member’s guaranty was not received and that the incurrence of such obligation has rendered or will render the Member of the Obligated Group insolvent or the Member of the Obligated Group is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enhance charitable trusts and to see to the application of their funds to the intended charitable uses.

Potential Effects of Bankruptcy. If any Member of the Obligated Group were to file a petition for relief (or if a petition were filed against such Member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group, and its property. If the bankruptcy court so ordered, such member’s property, including its accounts receivable and proceeds thereof, could be used for the benefit of such Member of the Obligated Group despite the claims of its creditors.

Enforceability of Remedies. All legal opinions with respect to the enforceability of the Master Indenture, the Indenture and the Loan Agreement will be expressly subject to a qualification that enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors’ rights generally, and by applicable principles of equity if equitable remedies are sought.

The Letters of Credit

The principal of (but not redemption premium, if any, on) and up to 45 days’ accrued interest on the Bonds of each series are payable from and secured by the Letter of Credit for the Bonds of such series. The security provided by the Letter of Credit issued by each Letter of Credit Bank may be impaired in the event of a deterioration of the financial condition of such Letter of Credit Bank, as such Letter of Credit represents a general, unsecured claim against the assets of such Letter of Credit Bank. Enforcement of remedies provided in the Bond Indenture with respect to payments to be made by such Letter of Credit Bank under such Letter of Credit may be limited by bankruptcy or other laws relating to creditors’ rights generally. In the event of a default by either Letter of Credit Bank under the Letter of Credit issued by

such Letter of Credit Bank, no insurance proceeds from the Federal Deposit Insurance Corporation or any other governmental agency, instrumentality or authority would be available to pay the series of Bonds for which such Letter of Credit was issued.

Each Letter of Credit expires on August 31, 2010 (unless extended), subject to earlier termination as provided therein. Unless such Letter of Credit is renewed or extended or an alternate Credit Facility and Liquidity Facility is obtained, the applicable series of Bonds will be subject to mandatory tender in whole, at a price equal to 100% of the principal amount thereof, plus accrued interest, but without any premium, on the fifth Business Day prior to the expiration of such Letter of Credit. See “THE BONDS—Purchase—Mandatory Tender” and “THE LETTERS OF CREDIT.”

Performance by the Letter of Credit Bank which issued each Letter of Credit of its obligations under such Letter of Credit is subject to the satisfaction of certain conditions by the Bond Trustee, as set forth in such Letter of Credit. See “THE LETTERS OF CREDIT.” Bondholders are thus dependent upon the Bond Trustee’s acting to satisfy such conditions before they will receive the benefit of such Letter of Credit. Furthermore, the question of whether the Bond Trustee has properly satisfied such conditions is a question of fact which, if disputed, could delay or defeat the Bond Trustee’s rights of enforcement of such Letter of Credit.

The United States Bankruptcy Code generally stays the enforcement of claims against the estate of a bankrupt once a petition in bankruptcy is filed. The Letter of Credit Bank which issued the Letter of Credit for the Bonds of each series is required under such Letter of Credit to pay amounts sufficient to pay the principal of and up to 45 days’ interest on the Bonds of such series in the event of the bankruptcy of the Borrower. However, it is possible that in the event of the bankruptcy of the Borrower, a bankruptcy court could stay the payment of such Letter of Credit until relief from that stay is granted by the court, thus delaying payment to the Bondholders. Moreover, in the event of the bankruptcy of the Borrower, a bankruptcy court, invoking equitable or other doctrines, could restructure the transactions which are the subject hereof or enjoin drawings under such Letter of Credit for the payment of principal of or interest on the Bonds of such series, thus resulting in impairment of rights of, or deferment of payments owed to, the Bondholders.

Certain information about the Series 2005A Bank is included in Appendix B hereto, and certain information about the Series 2005B Bank is included in Appendix C hereto.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Bonds, and, although the Underwriters intend to make a secondary market for the Bonds, from time to time there may be no market for the Bonds depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition and results of operations of the Borrower. The Bonds should therefore be considered long-term investments in which funds are committed to maturity.

Prepayment Risks

The Bonds are subject to redemption, without premium, in advance of their stated maturities under certain circumstances. See “THE BONDS—Redemption—Optional Redemption,” “Mandatory Sinking Fund Redemption” and “—Extraordinary Optional Redemption.” Upon the occurrence of certain events of default, the payment of the principal of and interest on the Bonds may be accelerated. See “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS—BOND INDENTURE—Defaults and Remedies” in Appendix C. Thus, there can be no assurance that the Bonds will remain outstanding until their stated maturities.

Interest Rate Swap Risk

In the normal course of business, the Borrower and other Obligated Issuers, if any, after receiving the appropriate approval of the governing body of the Borrower, may enter into interest rate swap agreements to hedge interest rate risk. Changes in market value of such agreements could negatively or positively impact the Obligated Group’s operating results and financial condition, and such impact could be material. Swap agreements may be subject to early termination upon the occurrence of certain specified events. If either party terminates such an agreement when the agreement has a

negative value to the Borrower, the Borrower could be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition. In the event of an early termination of any swap agreement, there can be no assurance that (i) the Borrower will receive any termination payment payable to it by the counterparty, (ii) the Borrower will have sufficient amounts to pay a termination payment payable by it to a counterparty, and (iii) the Borrower will be able to obtain a replacement swap agreement with comparable terms. The swap agreement under the 2005 Master Agreement, if any, will be subject to periodic "mark-to-market" valuations and may, at any time, have a negative value (which could be substantial) to the Borrower.

If the Borrower and the Swap Provider enter into the 2005 Master Agreement, the Swap Provider is expected to be obligated to make variable rate payments to the Borrower to the notional amount of all or a portion of the Bonds, which variable rate payments may be more or less than the variable rate amount the Borrower is required to pay the holders of such Bonds. There is no guarantee that any floating amount payable by the Swap Provider under the 2005 Master Agreement will match the amount payable by the Borrowers to the owners of the Bonds at all times or at any time. To the extent of a mismatch, the Borrower is exposed to "basis risk" in that the floating amount it receives from the Swap Provider pursuant to the 2005 Master Agreement will not equal the variable amount it is required to pay on the Bonds.

Bond Rating

There is no assurance that any rating assigned to the Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for or marketability of the Bonds.

Enforceability of Remedies

All legal opinions with respect to the enforceability of the Master Indenture, the Indenture and the Loan Agreement will be expressly subject to a qualification that enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally, and by applicable principles of equity if equitable remedies are sought.

The provisions of the Master Indenture pursuant to which each member of the Obligated Group guarantees the payment of any and all amounts due under any Note if such payments are not promptly paid by the applicable member of the Obligated Group may not be enforceable if such payments: (a) are required with respect to payments of any Note which was issued for a purpose which is not consistent with the charitable purpose of the member of the Obligated Group from which such payment is required; (b) are required to be made from any property of the member of the Obligated Group from which such payment is required which is donor restricted or which is subject to a direct or express trust which does not permit the use of such property for such payment; (c) would result in a cessation or discontinuance of any material portion of the health care or related services previously provided by the member of the Obligated Group from which such payment is required; or (d) would result in the violation of any applicable usury law.

There is no clear precedent in the law as to whether such payments by a member of the Obligated Group pursuant to the guaranty provisions of the Master Indenture may be voided by a trustee in bankruptcy in the event of a bankruptcy of such member of the Obligated Group or by third party creditors in an action brought pursuant to the fraudulent conveyance laws. Under the United States Bankruptcy Code, as amended, a trustee in bankruptcy and, under the Indiana fraudulent conveyances statute, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code, as amended, or Indiana fraudulent conveyances statute, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonable equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a member of the Obligated Group other than the Borrower to make payment under the guaranty, a court might not enforce such a payment in the event it is determined that sufficient consideration for the guaranty was not received or that the incurrence of such an obligation has rendered and will render the member of the Obligated Group insolvent.

ABSENCE OF MATERIAL LITIGATION

Authority

To the Authority's knowledge, there is no litigation pending against it or, to the knowledge of its directors, officers or counsel, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the Authority.

The Borrower

There is no litigation pending or, to the knowledge of management of the Borrower, threatened against the Borrower which seeks to restrain or enjoin the issuance, sale, execution or delivery of the Series 2005 Notes or the Bonds or any proceedings of the Borrower taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2005 Notes or the Bonds, or the use of the Bond proceeds.

No litigation or proceedings are pending or, to the knowledge of management of the Borrower, threatened against the Borrower, except (i) litigation or proceedings in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of management of the Borrower, will be entirely within the applicable insurance policy limits (subject to applicable deductibles) or for which adequate reserves exist, or (ii) litigation or proceedings in which, in the opinion of management of the Borrower, an adverse determination would not have a material adverse effect on the operations or condition, financial or otherwise, of the Borrower.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Authority are subject to the approval of Ice Miller, Bond Counsel, Indianapolis, Indiana. Certain matters will be passed upon for the Authority by its counsel, the Attorney General of the State of Indiana, for the Borrower by its counsel, Ice Miller, Indianapolis, Indiana, for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana, and for each Letter of Credit Bank by Miller Canfield Paddock and Stone, P.L.C., Detroit, Michigan.

TAX MATTERS

In the opinion of Ice Miller, Indianapolis, Indiana ("Bond Counsel"), under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Authority and the Borrower with the Tax Covenants (as hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. If, subsequent to the date hereof, the interest rate mode applicable to the Bonds is changed, Bond Counsel expresses no opinion on the effect such change will have on the exclusion from gross income for federal income tax purposes of interest on the Bonds. In the opinion of Bond Counsel, under existing laws, regulations, judicial decision and rulings, interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the exemption of interest on the Bonds for State income tax purposes. See Appendix E hereto for the form of the approving opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Authority and the Borrower will covenant not to take any action, nor fail to take any action within their respective power and control, with respect to the Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Bond Indenture, the Loan Agreement and certain certificates and agreements to be delivered on the date of delivery of the Bonds establish

procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Bond Indenture if interest on the Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the issue date of the Bonds.

The interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from federal gross income and exempt from State income tax, the accrual or receipt of interest on the Bonds may otherwise affect a Bondholder's federal or state income tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and the Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their own tax advisors with regard to the other tax consequences of owning the Bonds.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this statute on their ownership of the Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$49,775,000 (representing the aggregate principal amount of the Bonds less an Underwriters' discount of \$225,000). Pursuant to the bond purchase contract, the Borrower has agreed, to the extent permitted by law, to indemnify the Underwriters and the Authority against certain liabilities. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The obligation of the Underwriters to accept delivery of the Bonds is subject to the various conditions of the bond purchase contract.

RATINGS

Standard & Poor's Rating Group ("S&P") has assigned a rating of "A/A-1" to the Series 2005A Bonds. This rating is based upon the assumption that the Series 2005A Letter of Credit Bank will deliver the Series 2005A Letter of Credit upon issuance of the Series 2005A Bonds.

S&P has assigned a rating of "A+/A-1" to the Series 2005B Bonds. This rating is based upon the assumption that the Series 2005B Letter of Credit Bank will deliver the Series 2005B Letter of Credit upon issuance of the Series 2005B Bonds.

Each rating and an explanation of its significance may be obtained from the rating agency furnishing such rating. Such ratings reflect only the views of the rating agency furnishing such ratings.

The Borrower has furnished such rating agencies with certain information and materials relating to the Bonds that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Neither the Authority, the Underwriters nor the Borrower have undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of any rating of the Bonds or to oppose any such proposed revision or withdrawal.

Any such revision or withdrawal of such rating could have a material adverse effect on the market price or marketability of the Bonds.

FINANCIAL STATEMENTS

The consolidated financial statements of the System, as of December 31, 2004 and 2003 and for the years then ended, included in this Official Statement have been audited by Blue & Co., LLC, independent auditors, as stated in their report appearing in APPENDIX B herein. The Borrower controls, directly or indirectly, the hospitals described herein and a number of other entities whose assets, liabilities and results of operations are included in the System's audited Financial Statements included in APPENDIX B. The information describing the financial condition of the System contained in this Official Statement includes information with respect to certain related entities of the Borrower who are not Members of the Obligated Group. As of December 31, 2004, such related entities constituted less than 5% of the total assets of the System.

MISCELLANEOUS

The summaries or descriptions of provisions of the Act, the Bonds, the Series 2005 Notes, the Loan Agreement, the Bond Indenture, the Master Indenture, the Reimbursement Agreements and the Letters of Credit, and all references to other materials not purported to be quoted in full, are only brief summaries of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to the Act, the Bonds, the Series 2005 Notes, the Loan Agreement, the Bond Indenture, the Master Indenture, the Reimbursement Agreements and the Letters of Credit for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriters and, following delivery of the Bonds, will be on file at the offices of the Bond Trustee.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers will constitute grounds for a failure or refusal by any purchaser thereof to accept delivery of and pay for any Bonds.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Borrower has reviewed the information contained herein, and has approved such information for use within this Official Statement.

This Official Statement has been duly authorized, executed and delivered by the Authority and the Borrower.

INDIANA HEALTH AND EDUCATIONAL
FACILITY FINANCING AUTHORITY

By: /s/ Ryan C. Kitchell
Vice Chair

This Official Statement is approved:

THE BOARD OF TRUSTEES OF HOWARD
COMMUNITY HOSPITAL

By: /s/ James Alender
Chief Executive Officer

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APPENDIX A

HOWARD REGIONAL HEALTH SYSTEM

The information contained herein as Appendix A to this Official Statement has been obtained from The Board of Trustees of Howard Community Hospital d/b/a Howard Regional Health System and other sources believed to be reliable.

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THE BOARD OF TRUSTEES OF HOWARD COMMUNITY HOSPITAL AND HOWARD REGIONAL HEALTH SYSTEM

Background

The Board of Trustees of Howard Community Hospital (the “Borrower”) operates an acute care hospital (the “Hospital”) pursuant to Indiana Code 16-22-2. The Borrower also has a number of related health care entities and joint venture relationships that are consolidated in its financial statements. The Hospital and these consolidated entities are collectively referred to as the “System.” The Borrower is based in Kokomo, Indiana and, through the Hospital and the other health care entities within the System, provides inpatient and outpatient services to a nine county region in North Central Indiana. In addition to the Hospital, the System consists primarily of a 30-bed regional rehabilitation facility of which the Borrower is a sixty percent (60%) owner (the “West Campus Hospital”), an ambulatory surgery center, an imaging center, a primary care practice located in Greentown, Indiana, a pediatric practice located in Grissom, Indiana, and outpatient behavioral health facilities in Kokomo, Frankfort and Tipton, Indiana. Prior to October 2003, the System was known as Howard Community Hospital.

The Borrower’s current bed complement is as follows:

	<u>Available Beds</u>
Medical/Surgical Beds	101
ICU/CCU Beds	8
Skilled Nursing Unit	18
Psychiatric	24
Total Beds	<u>151</u>
Newborn Bassinets	16

In addition, the West Campus Hospital provides 30 inpatient rehabilitation beds.

The Borrower was formed on July 2, 1956 and began operations in 1961 as a 100 bed county hospital. Since that time, the System has undergone numerous renovations and expansions to provide for new services, including interventional cardiology, wound care, physical rehabilitation, hospice care, and emergency air transport, and numerous physician practices.

In 1985, the Borrower constructed the Community Medical Arts Office Suites which is a physician office suite complex located across the parking lot from the System’s main campus.

In the mid-1990’s, the Borrower began a major multi-phase facility improvement program to improve space allocation for patient care, to increase patient orientation to the various departments and to meet the changing needs of continually growing outpatient services (the “Program”). The first phase of the Program consisted of the construction in 1996 of the Community Family Office Suites to provide physician offices adjacent to the System’s main campus.

In 2000, the Borrower completed the second phase of the Program consisting of the construction of the Ambulatory Surgery Center (“ASC”) which also houses additional physician office suites on the second floor. The ASC is connected to the Hospital and is operated through a joint venture with Visionary Enterprises, Inc. and certain surgeons and other qualified physicians.

In 2001, the Borrower completed phase three of the Program with the renovation of approximately 10,900 gross square feet of the Hospital to add 18 medical and surgical beds.

Phase four of the Program was completed in 2003 after the renovation of approximately 45,000 gross square feet to establish the System’s downtown campus. The major focus of this phase was the building of an outpatient Community Mental Health Clinic.

The fifth phase consisted of the acquisition of an existing rehabilitation facility, the West Campus Hospital, and the creation of Howard Regional Specialty Care, LLC (“HRSC”). The acquisition of the facility was completed in April, 2004, and HRSC was created in January, 2005 (see “The System” below). HRSC is a joint venture created to operate the West Campus Hospital, although the building and grounds of the West Campus Hospital are owned by the Borrower and leased to HRSC.

As of September 2004, one of Clarian Health Partner’s LifeLine medical transport helicopters is permanently based at the Hospital.

The Program was completed in December 2004, with a \$2.8 million project that involved the construction of a 5,600 square-foot addition to the Hospital, followed by renovation of an additional 5,400 square feet of the oncology service area located at the Hospital to create a new oncology service facility. This new oncology facility was born out of the need to provide expanded and improved space for cancer care within the System. The System’s cancer program has achieved the highest national rating possible by the American College of Surgeons. In April 2005, a second linear accelerator with Intensity-Modulated Radiation Therapy technology was installed.

The Current Project

Proceeds of the Series 2005 Bonds will be used to finance and reimburse for the costs of certain projects of the Borrower, including:

- An expansion of the Emergency Department which is currently operating at capacity. The new and expanded Emergency Department also will include a critical decision unit, will add approximately 21,400 square feet of new space and will renovate approximately 12,000 square feet of existing space. In addition, a Computed Axial Tomography Scanner will be purchased for use in the Emergency Department;
- A new 8-bed intensive care unit to complement the existing 8-bed intensive care unit which will include approximately 16,000 square feet of new space;
- A reconfiguration of the Hospital’s beds to reduce the number of skilled nursing beds and increase the number of renal dialysis and medical and surgical beds. The total number of available beds for the Hospital will be unchanged upon completion of this project;
- The addition of a dedicated Women’s Center to replace the existing women’s diagnostic services offered on the System’s main campus;
- The expansion of the laboratory and radiology departments; and
- The addition of approximately 155 parking spaces to meet the growth in patient volumes.

As set forth in the forepart of the Official Statement under the caption “The Project and Plan of Finance,” proceeds of the Series 2005 Bonds will also be used to refinance certain outstanding obligations of the Borrower.

THE SYSTEM

The Obligated Group

The Borrower is the only Member of the Obligated Group. The Borrower has several related entities and joint ventures that are consolidated with the System’s financial statements. As of December 31, 2004, these related entities and joint ventures comprised less than 5% of total assets of the System.

Related Entities and Joint Ventures

NONE OF THE ENTITIES DESCRIBED BELOW IS A MEMBER OF THE OBLIGATED GROUP.

Howard Regional Health System Foundation, Inc.

Howard Regional Health System Foundation, Inc. (the “Foundation”) is a separate non-profit entity organized to support the operations of the Borrower. As of December 31, 2004, the Foundation held total assets of approximately \$3,041,227.

West Campus Hospital

In April 2004, the Borrower purchased the assets of HealthSouth Rehabilitation Hospital of Kokomo, a 30-unit acute rehabilitation facility which was renamed the Howard Regional Health System-West Campus Specialty Hospital. In January 2005, the Borrower entered into a joint venture with RehabCare Group East, Inc. to form HRSC (as described above), which operates the West Campus Hospital. The Borrower owns 60% of HRSC, and RehabCare Group East, Inc. owns 40%. The Borrower leases the West Campus Hospital building and property to HRSC under the terms of a long-term lease which expires in July 2012.

The West Campus Hospital provides rehabilitation services for patients recovering from strokes and other disabling injuries and illnesses. HRSC is considering contracting with a long-term acute care hospital (“LTACH”) provider to own and operate an LTACH at the West Campus Hospital.

Howard Community Surgery Center, LLC

In September, 2000, the Borrower, Visionary Enterprises, Inc. and certain surgeons and other qualified physicians formed a joint venture, the Howard Community Surgery Center, LLC, which operates an ambulatory surgery center located on the System’s main campus. The Borrower owns 52.25% of the joint venture.

Imaging Center of North Central Indiana

The Borrower is also a 50% owner in a joint venture with St. Joseph Hospital in Kokomo, Indiana, which owns and operates the Imaging Center of North Central Indiana, a freestanding imaging center that provides magnetic resonance imaging (“MRI”), positron emission tomography (“PET”), CAT scan, ultrasound, and radiology services.

North Central Indiana Linen Service, Inc.

The Borrower participates in a joint venture with numerous partners, the North Central Indiana Linen Service, Inc., which owns and operates a laundry service. The Borrower owns approximately 20% of this joint venture.

Midwest Racquetball, Inc.

Midwest Racquetball, Inc. (d/b/a Kokomo Sports Center) is a separate legal entity from the Borrower; however, it is reported as a consolidated entity as the Borrower controls the entity.

Pillars Community Housing, Inc.

Pillars Community Housing, Inc. is a 25-unit special needs affordable housing development located in Kokomo, Indiana operating under the name “The Pillars.” The Pillars was constructed in order to address the significant affordable housing demands for the special needs population in the community. At this time, the Borrower is the 100% owner of The Pillars, but anticipates that its ownership interest will drop significantly (to less than 1%) in the near future.

GOVERNANCE AND ORGANIZATION

Board of Directors

The Board of County Commissioners of Howard County, Indiana (the “Board of Commissioners”) appoints the Board of Trustees of the Borrower. The Borrower’s Board of Trustees (the “Board”) is identified by statute as the supreme authority of the Borrower, responsible for the management, control and oversight of the System and all of its functions. The Board has and exercises all of the rights and privileges legally exercisable under Indiana Code 16-22-3 which governs county hospitals.

The Board consists of seven members appointed by the Board of Commissioners from various geographic sections of Howard County, Indiana; one member may be a physician. The seven appointed Board members serve four-year terms. The Chief of the Medical Staff also serves on the Board as an ex-officio, non-voting member.

The Board presently consists of the following members:

<u>Name and Board Position</u>	<u>Occupation</u>	<u>Expiration of Current Term</u>
David Shearer, Chair	Retired, Shearer Printing & Co.	6/30/06
Lynette Hazelbaker, MD, Vice Chair	Physician, Internal Medicine	6/30/07
Jack Lechner, Treasurer	CPA, Lechner CPA Services	12/31/08
Bill Hingst	Co-owner, MidAmerica Beverage Co.	12/31/06
Don Bowling, Secretary	Retired, Chrysler Corp.	6/30/08
Tom Hilligoss	Attorney, Russell, Hilligoss, McIntyre, Welke	6/30/07
Jay Freeman	Independent Insurance Agent, Norris Insurance Agency	6/30/08
Mohammad Nekoomaram, MD, ex officio	Chief of Medical Staff	N/A

Certain Relationships

Certain transactions have occurred and are anticipated to occur in the future between the Borrower and such members of the Board or entities with which such Board Members are affiliated. Such transactions are fully disclosed to the Board and are considered to be arms length transactions in the normal course of business. One of the Board’s members, Lynette Hazelbaker, M.D., is a physician, on the medical staff of the Hospital, and has certain contractual relationships with the Borrower.

Executive Management

The day-to-day management of the System is delegated by the Board to the System’s executive management, which consists of the following individuals:

JAMES PAUL ALENDER, *President and Chief Executive Officer*

Mr. Alender, age 54, has been President and Chief Executive Officer since 1997 and was the System's Vice President of Strategic Planning from 1995 to 1997. Prior to joining the System, Mr. Alender was the President of Key Bank in Kokomo, Indiana, and President and CEO of Ameritrust Bank, Central Indiana in Indianapolis, Indiana.

Mr. Alender is a graduate of Purdue University (1973) where he received a Bachelor's of Science degree in Economics and Marketing. He also received a Masters in Business Administration from the University of Wisconsin Graduate School of Commercial Finance in 1986. He is an adjunct faculty member at Indiana University-Kokomo, a member of the American College of Health Care Executives and the recipient of its Hospital Administrator of the Year 2003 Early Career Award. He serves on the board of Salin Bank & Trust Co. and Voluntary Hospitals of America (VHA) Central Indiana. He also serves on several community boards, including serving as President of the Indiana University-Kokomo Advisory Board, Co-Chair of the Indiana University-Kokomo Science Building Capital Fund and a member of the Kokomo Rotary Club, the American Cancer Society and the Community Foundation of Howard County.

THEODORE T. BROWN, *Chief Operating Officer*

Mr. Brown, age 46, has been the Chief Operating Officer of the System since 2000. He is responsible for oversight of Clinical & Support Services, Behavioral Health Services, Information Systems, Community Relations and the Foundation. Prior to joining the System, Mr. Brown was Controller and, later, Treasurer of Haynes International, Inc. from 1988 to 2000, Senior Internal Auditor at Employers Reinsurance in Overland Park, Kansas from 1986 to 1988, and a Senior Accountant at Price Waterhouse from 1983 to 1986.

Mr. Brown received his B.A. in Economics from Princeton University in 1980, and a Masters in Business Administration from Rutgers University in 1983. He has served as Chair and Vice Chair of the United Way of Howard County in 2004 and 2003, respectively. In addition, he serves on the board for the YMCA, is a member of American College of Healthcare Executives and a member of the Board of Examiners of the Malcolm Baldrige National Quality Award Program.

THOMAS M. COOK, CPA, CVA, FACHE, FHFMA, *Vice President of Finance and Chief Financial Officer*

Mr. Cook, age 48, has been the Chief Financial Officer at the System since 2001. He has served in numerous financial and strategy-related positions in his 24 years of experience in the for-profit and non-profit healthcare sector, including Chief Executive Officer of Gateway Management Resources, Inc. (a financial and operations consulting firm), Chief Operating Officer of Comanche County Memorial Hospital in Lawton, Oklahoma, Vice President Of Business Development at Rapid City Regional Hospital in Rapid City, South Dakota, and a Regional Chief Financial Officer for Behavioral Healthcare Corporation in Nashville, Tennessee.

Mr. Cook received his Bachelors degree from the University of New York in 1980 and a Masters in Business Administration from Clarkson University in 1984. He has been a part time faculty member at Indiana Wesleyan University and currently is a member of a number of professional organizations, including the American College of Healthcare Executives, National Healthcare Quality Association, and the National Association of Certified Valuation Analysts. He is also a Fellow of the Healthcare Financial Management Association, a Fellow and Certified Healthcare Executive with the American College of Healthcare Executives, a Certified Public Accountant and a Certified Valuation Analyst. Mr. Cook is the Chapter Chairperson for the board of Ducks Unlimited, a member of the Executive Committee of the Fort Washington Institute, Treasurer of the Kokomo Sports Center, and a member of the Kokomo Main Street Association.

CHARLES CLARK, *Vice President of Behavioral Services*

Mr. Clark, age 49, has been the Vice President of Behavioral Services since October 2004 and was the System's Director of Business Operations for Behavioral Health from 2003 to 2004. He has 16 years of experience in behavioral healthcare administration including, Director of Business Development at Parkview Health System in Fort Wayne, Indiana, and the Division Director of Marketing and Chemical Dependency Treatment Services at Wabash County Hospital in Wabash, Indiana.

Mr. Clark received his Bachelors degree from Ball State University in 1978 and a Masters in Business Administration from Indiana Wesleyan University in 1992. He a member of numerous civic and professional groups, including the Mayor's Council on Substance Abuse, Howard County Minority Health Partners, Howard County Tobacco Prevention Coalition, Indiana Council of Community Mental Health Centers, Affiliated Services Providers of Indiana and Referral & Information of the United Way.

PAUL M. DELUISE, *Vice President of Professional/Support Services*

Mr. Deluise, age 52, has been the Vice President of Professional/Support Services since 1994. He is responsible for the administration of a number of departments, including Materials Management, Plant Operations, Radiology, and Clinical Engineering. Prior to his current position, he was the Vice President of General Services and the Director of Materials Management and Management Engineering at the System.

Mr. Deluise received his Bachelors and Masters degrees in Industrial Engineering from Purdue University, and a Masters in Business Administration from Ball State University. He is a member of the American College of Health Care Executives, the Institute of Industrial Engineers and the Hospital Management System Society. In addition, Mr. Deluise serves on the Board of Directors for the Family Service Association and the City of Firsts Federal Credit Union.

SHARON E. MILLER, *Vice President of Information Systems, Chief Information Officer*

Ms. Miller, age 45, has been the Vice President of Information Systems, Chief Information Officer of the System since 2000. Prior to joining the System, Ms. Miller worked for Community Hospitals Indianapolis Network in a number of roles, including Systems Analyst, Vice President for VEI–Indianapolis Medical Management, Administrator for Indiana Surgery Center South, VEI, and the Business Director for Indiana Surgery Center North, VEI.

Ms. Miller received her Bachelors degree from Ball State University in 1982 and a Master of Health Care Administration in 1989 from Indiana University. She is a member of the College of Healthcare Information Management Executives and the Healthcare Information and Management Systems Society.

MICHAEL L. WILLIAMS, SPHR, CHE, *Vice President Professional Administrative Services/CHRO*

Mr. Williams, age 57, has been the Vice President Professional Administrative Services/CHRO, responsible for employed physician practices and Human Resources at the System since 2005 and previously was the Vice President for Professional & Physician Administrative Services. Prior to joining the System, he was the Vice President/Operations and the Executive Vice President/Chief Operating Officer at St. Joseph Hospital & Health Center in Kokomo, Indiana.

Mr. Williams received his Bachelors degree from Florida Atlantic University in 1970 and his Master of Science in Management from Indiana Wesleyan University in 1991. He is currently a member of numerous civic and professional organizations, including the American College of Healthcare Executives, the Society for Human Resources Management, American Society for Healthcare Human Resources Administration, Board of Directors of the Kokomo Family YMCA, Board of Directors for the United Way of Howard County and the Board of Directors for Sycamore Primary Care LLC.

MONICA S. ARROWSMITH, *Vice President of Medical Staff Services*

Ms. Arrowsmith, age 45, has been the Vice President of Medical Staff Services since 2005. She is responsible for medical staff services as well as case, risk and quality management. Prior to joining the System, she was responsible for Information Systems, and later Senior Legal Counsel for Adena Health System from 1998 to 2004, the Corporate Director for Quality Management at Franciscan Services Corporation from 1997 to 1998 and Legal Counsel to the Health Care and Retirement Corporation.

Ms. Arrowsmith received her Bachelor of Science in Nursing from Ball State University in 1981, her Master of Science in Nursing from Medical University of South Carolina in 1991, and her Juris Doctorate from the University of Cincinnati College of Law in 1994. She is a member of the College of Healthcare Information Management Executives, the American Health Lawyer's Association, United Way of Ross County, and Treasurer of Walnut Street United Methodist Church.

RHONDA BLOUNT, RN, *Vice President Patient Care Services*

Ms. Blount, age 48, has been the Vice President Patient Care Services for the System since 1999. Prior to her current responsibilities, she was the Director of the Extended Care Unit and a Staff Nurse/Charge Nurse in the Intensive Care Unit at the System.

Ms. Blount received her Associates degree in Nursing from Indiana University in 1977. She is a member of numerous professional organizations, including the Indiana Organization of Nurse Executives, American Organization of Nurse Executives, Indiana Health Care Association, and Indiana VHA Patient Care Executives. In addition, she is a member of the Howard County Chamber of Commerce and the American Cancer Society.

THE SYSTEM'S SERVICES

Services

A broad range of acute care services are provided within the System, including the following:

Anesthesiology	Obstetrics Oncology
Cancer Care Services	Ophthalmology
Cardiology	Oral Surgery
Critical Care Unit	Otolaryngology
Family Practice/General Practice	Outpatient Rehabilitation
Gastroenterology	Pathology
General Surgery	Pediatrics
Inpatient Rehabilitation	Podiatry
Intensive Care Unit	Postoperative Recovery Room
Internal Medicine	Urology
Neurology	

The following ancillary services are also provided within the System:

Ambulatory Care Services	Patient Education
Blood Bank	Patient Representative Services
Cardiac Catheterization Lab	Pharmacy
Cardiac Rehabilitation	Physical Therapy
Diabetic Center	Pulmonary Rehabilitation
Diagnostic Breast Center	Radiation Therapy
Emergency Department	Radiology – CT Scan
Home Health Care Program	Radiology – Diagnostic
Laboratory Services	Radiology – MRI
Labor/Delivery/Recovery Room	Radiology Ultrasound
Laser Surgery	Respiratory Therapy
Lithotripsy	Sleep Center
Nuclear Medicine	Speech, Hearing and Language Services
Occupational Therapy	Wellness Program
Outpatient Surgery Unit	

Education and Community Services

The System provides a wide range of health education and training programs for the community. The following Community Health Services, Special Programs, Classes and Support Groups have program themes of wellness, the family, managing illness and prevention:

- Alzheimer's Support Group
- Attention Deficit Workshops
- Blood Pressure Screening
- Breast Cancer Support Group
- Community Health Screening Day
- CPR Classes
- Diabetic Outpatient Classes
- Expectant Parents Classes
- Heart Healthy Cooking Classes
- Prepared Childbirth Classes
- Redirecting Children's Behavior Classes
- Safe Kids Fair
- Safe-sitter Classes
- Sibling Classes
- "Smokeless" Classes
- Sports Physicals
- Weight Management Classes
- Women's Symposiums (four times a year)

MEDICAL STAFF OF THE BORROWER

The mission of the Borrower is to ensure the availability of high quality health care to the communities in its service area and to provide the necessary programs and services to facilitate responsible personal decisions and choices for healthy lifestyles. The Borrower considers physicians to be the catalysts for the provision of health care information and services and it has determined that physician recruitment is a top priority over the next five years.

As of June 2005, the Hospital's medical staff consisted of a total of 255 members of which 160 were active staff members and 95 were courtesy members. Another 14 individuals have privileges to practice at the Hospital as allied health professionals. The average age of the physicians comprising the active admitting medical staff was 47 years.

As shown in the following table, the top ten physicians on the Hospital's medical staff (based on patient revenue) account for approximately 37.5% of patient service revenues.

Top Ten Physicians	
<u>Medical Specialty</u>	<u>Percentage of Patient Revenues</u>
Interventional Cardiologist	7.9%
Oncologist	5.7
Oncologist/Internist	5.0
Vascular Surgeon	4.0
Psychiatrist	2.9
Physiatrist	2.8
Psychiatrist	2.6
Family Practice	2.5
Obstetrics/Gynecology	2.1
Family Practice	2.0
Total	37.5%

Employees

As of May 31, 2005, the Borrower employed 1,242 people at the Hospital, of whom 946 are full-time employees and 296 are part-time employees. The Borrower provides compensation and a full range of employee benefit programs which management believes are competitive with other employers in the area. These benefits include pension, health insurance, group life insurance and vacation/sick pay, long-term disability, and tuition assistance. Management characterizes its relationship with its employees as excellent. No employees are represented by a labor organization.

Pension Plan

The Borrower has a defined contribution pension plan as authorized by Indiana Code 16-22-3-11(6) covering substantially all its employees. Contributions to the plan are funded using the Employee Retirement Income Security Act of 1974, as amended, guidelines and benefits are based on payroll reports performed on a quarterly basis. Qualified individuals self-direct the investments in their retirement portfolio. The employer contributions to the plan for 2004 and 2003 were \$2,592,027 and \$2,163,896, respectively. There is currently no accrued liability associated with the pension plan.

Accreditation, Licenses, Membership and Approvals

The Hospital, the West Campus Hospital and certain other facilities in the System are licensed by the Indiana State Department of Health in accordance with Indiana Code 16-21-2. The Hospital and the West Campus Hospital are also accredited by the Joint Commission on Accreditation of Healthcare Organizations (the "JCAHO"). These hospitals were awarded their current three-year accreditation by JCAHO in 2004.

In addition, the System, or portions thereof, are accredited or licensed by: the Nuclear Regulatory Commission; American College of Surgeons, Cancer Program; and the Indiana Board of Pharmacy. The System also holds memberships in the following organizations: American Hospital Association; Indiana Hospital & Health Association; and Voluntary Hospitals of America, Indiana Council on Mental Health.

Educational Affiliations

The System has relationships with the following educational institutions: Indiana University at Kokomo and Indiana University Medical Center (part of Clarian Health Partners, Inc., based in Indianapolis, Indiana).

Auxiliary and Volunteer Services

The Foundation supports the Borrower through service and fund raising. The Foundation began in 1958, and in 2004 donated more than \$240,000 in equipment, furnishings and support of various programs throughout the System.

At the close of 2004, there were a total of 116 (Adult and Junior) volunteers who gave a total of 24,413 hours of service in numerous different areas and services of the System. The program consists of those volunteer services that are traditional to a hospital system as well as innovative programs that focus on customer and patient services.

Patient Satisfaction

Patient satisfaction is a major measurement tool that the Borrower uses to improve the health and well being of the people it serves and to encourage patients to continue to select the System for future healthcare needs. The Borrower uses Press Ganey to compare itself with other healthcare organizations across the country in the area of patient satisfaction. Press Ganey results for the fourth quarter of 2003 showed that the Hospital achieved the 98th percentile in inpatient satisfaction. This fell to 87th percentile in the fourth quarter of 2004. Outpatient satisfaction slipped in the fourth quarter from the 93rd percentile in 2003 to the 92nd percentile in 2004. In response to the decline, the Borrower has renewed its relationship with the Studer Group and is utilizing the Five Pillars of Operational Excellence to revitalize patient satisfaction. The goal will be to recapture top level Press Ganey scores by concentrating on the first three pillars: service, people and quality. In the second quarter of 2005, the Borrower's inpatient satisfaction had climbed to the 96th percentile.

The Service Area

The Borrower's primary service area consists of Howard County, Indiana. In 2004, the primary service area provided approximately 77% of the Borrower's patients as measured by the percentage of the Borrower's gross patient revenue.

The Borrower's secondary service area consists of Miami, Cass, Tipton, Clinton, Grant, and Carroll Counties in Indiana. During 2004, the secondary service area provided approximately 20% of the Borrower's patients as measured by the percentage of the Borrower's gross patient revenue. During 2004, the remaining 3% of the Borrower's patients came from outside the primary and secondary service areas.

The County

Howard County (the "County") is situated in east central Indiana approximately 45 miles northeast of Indianapolis. The population of the County in 2004 is estimated at 84,615 according to the U.S. Census Bureau.

	Estimated 2004	2000	1990
Population	84,615	84,964	80,827

Source: U.S. Census Bureau

The County has a diversified economy including manufacturing and commerce. Much of the industrial activity of the County is centered in and around the City of Kokomo and includes a large number of nationally recognized manufacturers including Daimler/Chrysler Corporation, EDS, and Delphi Electronics and Safety, which announced on or about August 8, 2005, that it would consider filing for bankruptcy if it was not able to address its expenses and liabilities. The following table lists the County's top ten employers as of April 2004.

Howard County Top Ten Employers

Name	Business	Number of Employees (estimated)
Daimler/Chrysler Corporation	Automotive	7,260
Delphi Electronics and Safety	Automotive	5,920
Howard Regional Health System	Healthcare	1,235
Saint Joseph Hospital	Healthcare	925
Haynes International	Metallurgy	636
Wal-Mart	Retail	467
Bona Vista Programs	Healthcare	675
EDS	Computer Services	350
Syndicate Sales	Manufacturing	300
Marsh	Retail	246

Source: Kokomo Chamber of Commerce Fact Sheet

Competition

The following table shows the inpatient market share data for the Borrower and its key competitors in the primary service area of Howard County.

	<u>Percentage Market Share</u>			
	2001	2002	2003	2004
The Hospital	38%	40%	42%	44%
St. Joseph Hospital	41%	39%	37%	35%
Clarian Health Partners, Inc.	9%	8%	7%	5%
St. Vincent Indianapolis Hospital	6%	7%	5%	5%
Other	6%	6%	9%	11%
<i>Total</i>	100%	100%	100%	100%

Source: Indiana Health and Hospital Association

Medical Malpractice Coverage

The Borrower maintains professional liability insurance through a private insurance carrier. These policies provide protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. The Borrower's insurance policies conform to the Indiana Medical Malpractice Act described below. In addition, the System maintains a commercial umbrella liability policy with a limit of \$10,000,000.

In 1975, the Indiana legislature passed the Medical Malpractice Act, now codified at Indiana Code 34-18-1 *et seq.*, which limits the total amount a plaintiff can recover to \$1,250,000 in a lawsuit based on professional liability against a health care provider qualified under the Medical Malpractice Act. The maximum liability of a qualified health care provider is capped at \$250,000 per incident. The Borrower is qualified as a health care provider under the Medical Malpractice Act. The law provides for a mandatory State Patient's Compensation Fund (the "Fund") to which a qualified health care provider contributes a surcharge.

Various aspects of the Medical Malpractice Act, including the limitations on recovery, have been upheld on constitutional grounds by the Indiana Supreme Court. The Borrower believes its risk management programs embody a mix of broad insurance coverage and retention programs that reflect an appropriate and prudent approach toward the protection of the institution.

Insurance

The Borrower maintains other insurance coverage, including property and casualty, auto, and umbrella liability in amounts that are customary for health care systems of a similar size and location.

Litigation

The nature of the Borrower's business generates a certain amount of litigation arising in the ordinary course of business; however, the Borrower and legal counsel believe that the ultimate result of these legal proceedings and claims will not have a materially adverse effect upon the Borrower's financial condition or results of operations, and, in the opinion of the management of the Borrower, there are no proceedings pending or threatened to which the Borrower is or may be a party, to which its property is or may be the subject and which, if adversely determined against the Borrower, would have a materially adverse effect upon the Borrower's financial condition or results of operations.

FINANCIAL AND UTILIZATION INFORMATION

Utilization

The following table sets forth historical utilization statistics for the System for the fiscal years ended December 31, 2003 and 2004, and the five month periods ended May 31, 2004 and 2005.

	Fiscal Year Ended <u>December 31,</u>		Five Months Ended <u>May 31,</u>	
	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>
Average Daily Census (Acute)	60.0	59.5	59.0	60.0
Average Daily Census (Skilled Nursing)	14.3	13.5	14.3	13.9
Average Daily Census (Psychiatric)	16.2	15.1	14.3	17.3
Discharges (Acute)	5,137	5,254	2,168	2,188
Discharges (Skilled Nursing)	487	451	197	188
Discharges (Psychiatric)	949	1,051	419	420
Length of Stay (Acute)	4.3	4.1	4.1	4.1
Emergency Visits	24,306	23,969	9,787	10,588
Total Surgical Procedures	4,887	4,693	2,347	1,931
Inpatient Surgical Procedures	1,479	1,580	790	763
Outpatient Surgical Procedures	3,408	3,113	1,557	1,168

Source: Hospital records

Sources of Payments

Payments to the Borrower are made on behalf of certain patients by federal and state governments under Medicare and Medicaid programs, and other payors, including commercial insurance and self-pay. A percentage breakdown by source of gross patient revenue for the Borrower is presented below:

	Fiscal Year Ended December 31	
<u>Payor</u>	<u>2003</u>	<u>2004</u>
Medicare	43.2%	41.6%
Medicaid	10.0%	10.2%
Blue Cross	21.4%	22.6%
Other Third Party Payors	18.1%	19.3%
Other (Self Pay)	<u>7.3%</u>	<u>6.3%</u>
<i>Total</i>	100%	100%

Source: Hospital records

Summary of Revenues and Expenses

The following summaries of revenues and expenses and balance sheet of the System for the fiscal years ended December 31, 2003 and 2004 have been compiled from audited financial statements of the System which includes the entities within the System, however, these entities are not members of the Obligated Group. These summaries should be read in conjunction with such consolidated financial statements and related notes which have been audited by the System's independent auditors as set forth in their reports included in Appendix B. The summary information for the five month periods ended May 31, 2004 and 2005 was derived from unaudited financial statements prepared by management of the Borrower and include only the financial results of the Borrower.

Summary Statement of Revenues and Expenses

(000's Omitted)

	Fiscal Year Ended December 31, ¹		Five Months Ended May 31, ²	
	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>
Net Patient Service Revenue	\$ 97,709	\$ 122,943	\$ 44,750	\$ 46,350
Other Operating Revenue	<u>9,238</u>	<u>10,853</u>	<u>4,790</u>	<u>6,029</u>
Total Operating Revenue	106,947	133,796	49,540	52,379
Total Operating Expense	103,332	124,237	46,649	50,876
Nonoperating Gains	2,240	(143)	577	3,138
Minority Interest	<u>(484)</u>	<u>(864)</u>	<u>0</u>	<u>0</u>
Excess of Revenue and Expenses	\$ 5,371	\$ 8,552	\$ 3,468	\$ 4,641

¹ The 2003 and 2004 year-end amounts are derived from the Borrower's audited financial statements which have been consolidated with the other entities comprising the System.

² The figures for the five months ended May 31st of 2004 and 2005 are taken from the Obligated Group's financial statements as prepared by management.

Balance Sheet

(000's Omitted)

	<u>December 31, 2003</u> ³	<u>December 31, 2004</u> ³	<u>May 31, 2004</u> ⁴	<u>May 31, 2005</u> ⁴
Total current assets	\$ 35,411	\$ 45,452	\$ 31,584	\$ 39,834
Noncurrent portion of assets whose use is limited	5,340	4,852	7,069	7,389
Capital assets, net	44,116	54,660	45,261	46,530
Foundation assets	2,826	3,071	N.A.	N.A.
Other assets	<u>2,303</u>	<u>1,611</u>	<u>5,683</u>	<u>4,004</u>
Total assets	89,995	109,647	89,598	97,756
Total current liabilities	15,605	19,675	14,760	15,817
Total long term debt	<u>15,362</u>	<u>21,588</u>	<u>15,886</u>	<u>14,727</u>
Total liabilities	30,967	41,263	30,646	30,544
Minority interest	822	1,626	N.A.	N.A.
Total net assets	<u>58,205</u>	<u>66,758</u>	<u>58,952</u>	<u>67,213</u>
Total liabilities and net assets	<u>\$ 89,995</u>	<u>\$ 109,647</u>	<u>\$ 89,598</u>	<u>\$ 97,756</u>

³ The 2003 and 2004 year end amounts are derived from the Borrower's audited financial statements which have been consolidated with the other entities comprising the System.

⁴ The figures for May 31st of 2004 and 2005 are taken from the Borrower's financial statements as prepared by management.

Historical Pro Forma Debt Service Coverage

The following schedule presents Net Income Available for Debt Service for the fiscal years ended December 31, 2003 and 2004. It is derived from the corresponding information contained in the consolidated financial statements for the System, which includes entities that are not Members of the Obligated Group, for the fiscal years ended December 31, 2003 and 2004, included in Appendix B. The following table also shows, on a pro forma basis, the

resulting coverage by such Net Income Available for Debt Service of the total of the maximum annual debt service in any future year assuming the issuance of the Bonds and the refinancing of certain outstanding long-term indebtedness with the proceeds of the Bonds. Dollars are in thousands.

	Fiscal Year Ended December 31,	
	2003	2004
Excess of Revenues over Expenses	\$ 5,371	\$ 8,552
Add Back:		
Depreciation Expense	5,480	6,082
Interest Expense	<u>633</u>	<u>758</u>
Net Income Available for Debt Service	\$ 11,484	\$ 15,392
Pro Forma Maximum Annual Debt Service	\$ 8,498	\$ 8,498
Historical Pro Forma Maximum Annual Debt Service Coverage	1.35	1.81

Historical and Pro Forma Capitalization

The following table sets forth the historical capitalization of the System as of December 31, 2003 and 2004 and the pro forma capitalization as of December 31, 2004 and assuming the issuance of the Bonds and refinancing of the Refunded Loans with proceeds of the Bonds. Dollars are in thousands.

	Fiscal Years December 31,		
	2003	2004	2004 Pro Forma
Long-term debt, less current installments	\$ 15,362	\$ 21,588	\$ 63,591
Unrestricted Net Assets	\$ 54,414	\$ 62,704	\$ 62,704
Total Capitalization	\$ 69,776	\$ 84,292	\$ 126,295
Long-Term Debt to Capitalization	22.0%	25.6%	50.4%

Management's Discussion and Analysis of Financial and Utilization Performance

The System's consolidated financial statements consist of three statements: a consolidated balance sheet; a consolidated statement of revenues, expenses and changes in net assets; and a consolidated statement of cash flows. The consolidated balance sheet includes all of the System's assets and liabilities, including assets held by the System but restricted for specific purposes by contributors, grantors, or enabling legislation. The consolidated balance sheet provides a basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System. The consolidated statement of revenues, expenses and changes in net assets includes all revenues and expenses of the System. This statement measures the consolidated financial results of the System's operations and presents revenue earned and expenses incurred. The consolidated statement of cash flows provides information about the System's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year.

Financial Performance

During 2004, the Borrower derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

With the addition of the West Campus Hospital and growth in volume, the System's discharges increased by approximately 8% over 2003, patient days increased by approximately 11% over 2003, and adjusted patient days increased by approximately 17% over 2003. This accounts for the majority of the increase in revenues and expenses for the year.

Total assets of the System increased approximately \$20 million over the prior year. The majority of the increase relates to a \$6 million increase in net patient accounts receivable and \$10 million increase in net capital assets. Liabilities increased by approximately \$10 million mainly due to increased long-term indebtedness and other accrued expenses.

The Borrower's revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the negotiated payment rates for such services. The gross charges typically do not reflect what is actually paid. The Borrower has entered into agreements with third party payors, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates per diagnoses or discounts from gross charges. The Borrower receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from Medicare and Medicaid programs to the Borrower decreased to 53.1% of gross revenues in 2004 from 53.2% in 2003. Legislative changes continue to limit or reduce the levels of payments from these programs.

Economic Outlook

Management believes the healthcare industry operating margins will continue to be under significant pressure due to changes in payer mix and growth in operating expenses in excess of the increase in prospective payments under the Medicare and Medicaid programs. The ongoing challenge facing the Borrower and the entire healthcare market is to continue to provide quality patient care in a competitive environment and to attain reasonable rates for the services it provides while managing its costs. The most significant cost factor affecting the Borrower and the industry in general is the spiraling increase in labor costs due to a nationwide shortage of nurses and other healthcare specialists. The Borrower expects the nursing shortage to continue and has implemented various initiatives to better position itself to attract and retain qualified nursing personnel and improve productivity.

Looking Ahead

In December 2004, the Board voted to purchase a Picture Archiving and Communication System ("PACS") which will ultimately eliminate approximately 95% of film used in the System for imaging purposes and provide quick digital turn-around of images throughout the System. In addition, a sixth Labor, Delivery and Recovery ("LDR") room is under construction in the Birthing Center. The new LDR is being constructed to accommodate increased demand. Projections estimate 825 babies will be born at the System in 2005, a 10% increase over 2004. These projects will be financed with the proceeds of the Bonds.

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APPENDIX B

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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HOWARD REGIONAL HEALTH SYSTEM

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Howard Regional Health System
Kokomo, Indiana

We have audited the accompanying consolidated balance sheets of Howard Regional Health System (the System), as of December 31, 2004 and 2003, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, Guidelines for Examination of Entities Receiving Financial Assistance From Governmental Sources and Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2004 and 2003 and the results of its consolidated operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, on pages i through vii, is not a required part of the basic consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Howard Regional Health System
Kokomo, Indiana
Page 2

In accordance with *Government Auditing Standards*, we have issued, under separate cover, our report dated March 18, 2005, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Blue & Co., LLC

March 18, 2005

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

This section of Howard Regional Health System's (the System) annual consolidated financial statements presents background information and management's discussion and analysis of the System's consolidated financial performance during the year ended December 31, 2004. This MD&A includes a discussion and analysis of the activities and results of the System, its blended component unit, Howard Regional Health System Foundation, and its majority owned subsidiaries as described in the notes to the consolidated financial statements.

This MD&A should read together with the consolidated financial statements included in this report.

The System has two county-owned facilities and operates under the Indiana County Hospital Law, Indiana Code 16-22. It has a licensed and staffed 150-bed acute regional hospital and a 30-bed regional rehabilitation hospital both located in Kokomo, Indiana serving a nine county region in north central Indiana. The System provides short-term inpatient and outpatient health care among other services.

The Board of County Commissioners of Howard County appoints the Governing Board of the System and a financial benefit/burden relationship exists between the County and the System. For these reasons, the System is considered a component unit of Howard County.

WEST CAMPUS SPECIALTY HOSPITAL

In April 2004, the System purchased the assets of HealthSouth Rehabilitation Hospital of Kokomo. The creation of the West Campus Specialty Hospital assures that the communities we serve continue to have access to quality rehabilitation services for patients suffering from stroke, disabling injuries and other trauma-related illnesses. In addition, it underscores our commitment to respond to north central Indiana's need for more comprehensive healthcare subspecialties.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

PATIENT SATISFACTION

Patient satisfaction is a major measurement that the System uses to improve the health and well being of the people it serves and to encourage patients to continue to select the System for future healthcare needs. The System uses Press Ganey to compare itself with other healthcare organizations across the country in the area of patient satisfaction. Press Ganey results for the fourth quarter of 2003 showed that the System achieved the 98th percentile in inpatient satisfaction. This fell to 87th percentile in the fourth quarter of 2004. Outpatient slipped in the fourth quarter from the 93rd percentile in 2003 to the 92nd percentile in 2004. In response to the decline, the System has renewed its relationship with the Studer Group and their Five Pillars of Operational Excellence to revitalize patient satisfaction. The goal will be to recapture top level Press Ganey scores by concentration on the first three Pillars of Service, People and Quality.

GROWTH AND INNOVATION

Oncology patients receiving treatment at the System will have better access, more privacy and spacious, comfortable treatment rooms thanks to a \$2.8 million expansion that was completed in December 2004. The project involved construction of a 5,600 square-foot addition, followed by renovation of an additional 5,400 square feet. The construction features a separate, canopied entrance for convenient patient access. This new facility was born out of the need to provide more and better space for the high quality cancer care available in our community. Our cancer program has achieved the highest national rating possible by the American College of Surgeons, putting our center in an elite group of accredited cancer centers nationwide. Our new Oncology Center assures that we will be able to continue to provide care to our growing numbers of cancer patients and their loved ones.

Last fall, one of LifeLines' medical transport helicopters was permanently based at the System. Our partnership in this venture with Clarian Health Partners builds on an existing relationship between emergency personnel at Methodist Hospital and the System, where Methodist-based emergency medical physicians staff our Emergency Department. This new service enhances overall patient care and underscores our commitment to becoming the premier healthcare system provider of choice of north central Indiana.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

LOOKING AHEAD TO 2005

In January 2005, the System and RehabCare Group, Inc. formed a joint venture which will own and operate our West Campus Specialty Hospital. Future plans call for the joint venture to contract with a long-term acute care hospital (LTACH) provider which will own and operate an LTACH in the Specialty Hospital.

In December 2004, the Board of Trustees voted to purchase a Picture Archiving and Communication System (PACS). The new image management system will ultimately eliminate 95% of film used in the System for imaging purposes and provide fast digital turn-around of images throughout the System.

A sixth Labor, Delivery and Recovery (LDR) room is under construction in the Birthing Center. The new LDR is being constructed to help accommodate the record number of mothers who are choosing to give birth at the System. Projections estimate 825 babies will be born at the System in 2005, an increase of 10 % from 2004.

There are plans for a comprehensive renovation of the Emergency Department. This \$10 million expansion will include up to 20 emergency rooms for trauma and fast track care.

CONSOLIDATED FINANCIAL STATEMENTS

The System's consolidated financial statements consist of three statements - a consolidated balance sheet; a consolidated statement of revenues, expenses and changes in net assets; and a consolidated statement of cash flows. The consolidated balance sheet includes all of the System's assets and liabilities, including assets held by the System but restricted for specific purposes by contributors, grantors, or enabling legislation. The consolidated balance sheet provides a basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System. The consolidated statement of revenues, expenses and changes in net assets includes all revenues and expenses of the System. This statement measures the consolidated financial results of the System's operations and presents revenue earned and expenses incurred. The consolidated statement of cash flows provides information about the System's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

FINANCIAL PERFORMANCE

A summary of the System's consolidated statements of revenues, expenses and changes in net assets follows:

Summary of Operations	2004		2003	
	Amount	Ratio	Amount	Ratio
Total revenues	\$ 133,795,854	100.0%	\$ 106,947,442	100.0%
Salaries and benefits	62,505,712	46.7%	53,901,336	50.4%
Supplies and drugs	24,200,811	18.1%	19,567,549	18.3%
Purchased services	7,813,256	5.8%	5,235,621	4.9%
Depreciation and amortization	6,082,456	4.5%	5,480,779	5.1%
Other	23,634,467	17.7%	19,146,837	17.9%
Total operating expenses	124,236,702	92.9%	103,332,122	96.6%
Operating income	9,559,152	7.1%	3,615,320	3.4%
Nonoperating revenues (expenses), net and minority interest changes	(1,006,689)	-0.8%	1,756,084	1.6%
Change in net assets	8,552,463	6.4%	5,371,404	5.0%
Net assets, beginning of year	58,205,226		52,833,822	
Net assets, end of year	\$ 66,757,689		\$ 58,205,226	

During 2004, the System derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

With the addition of the West Campus Specialty Hospital and growth in same story volumes, the System's discharges increased over 8%, patient days increased over 11%, and adjusted patient days increased 17%. This accounts for the majority of the increase in revenues and expenses for the year.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

Other financial performance indicators include:

Cash Flow Data	<u>2004</u>	<u>2003</u>
Cash flows from operating activities	\$ 9,924,101	\$ 7,955,247
Cash flows from capital and related financing activities	\$ (9,697,725)	\$ (7,021,432)
Cash flows from investing activities	\$ 1,340,220	\$ (735,994)
 Financial Position		
Total assets	\$ 109,647,033	\$ 89,994,912
Net capital assets	\$ 54,660,434	\$ 44,115,680
Total liabilities	\$ 41,263,132	\$ 30,967,261
Long term debt, including current portion	\$ 25,087,760	\$ 17,665,086
 Net assets		
Invested in capital assets, net of related debt	\$ 29,572,674	\$ 26,450,594
Restricted for debt service	1,012,623	1,010,810
Expendable for capital improvements	6,557,704	6,631,448
Expendable for other specific purposes	48,015	47,698
Held by Foundation	3,041,227	2,779,712
Unrestricted	26,525,446	21,284,964
Total net assets	<u>\$ 66,757,689</u>	<u>\$ 58,205,226</u>
 Days cash on hand	 68	 73
 Operating data		
Number of staffed beds	180	150
Inpatient discharges	7,112	6,573
Average daily census	100.6	90.4
Acute average length of stay	4.1	4.3
Occupancy	55.9%	60.3%
Medicare inpatient case mix	1.34	1.34
Total inpatient case mix	1.13	1.13
Adjusted patient days	102,850	87,775

Total assets increased approximately \$20 million over the prior year. The majority of the increase relates to a \$6 million increase in net patient accounts receivable and \$10 million increase in net capital assets.

Liabilities increased over \$10 million mainly due to new borrowings on long-term debt and other accrued expenses.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

The System's revenues depend upon inpatient occupancy levels, the ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the negotiated payment rates for such services. The gross charges typically do not reflect what is actually paid. The System has entered into agreements with third party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates per diagnoses or discounts from gross charges. The System receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from Medicare and Medicaid programs decreased to 53.1% of gross revenues in 2004 from 53.2% in 2003. Legislative changes continue to limit or reduce the levels of payments from these programs.

The approximate percentages of gross patient revenues were:

	<u>2004</u>	<u>2003</u>
Medicare	43.0%	43.2%
Medicaid	10.1%	10.0%
Blue Cross/Blue Shield	21.6%	21.4%
Commercial	18.2%	18.1%
Other	7.1%	7.3%
	<u>100.0%</u>	<u>100.0%</u>

LONG TERM DEBT

As of December 31, 2004, the System had \$25,087,760 in short term and long term notes and bonds outstanding, an increase from the \$17,665,086 as of December 31, 2003. During the year, there was approximately \$10,423,000 drawn to fund capital projects. More detailed information about the System's long term debt is presented in the notes to the consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2004 AND 2003

ECONOMIC OUTLOOK

Management believes that the healthcare industry operating margins will continue to be under significant pressure because of changes in payer mix and growth in operating expenses in excess of the increase in prospective payments under the Medicare and Medicaid programs. The ongoing challenge facing the System and the entire healthcare market is to continue to provide quality patient care in a competitive environment and to attain reasonable rates for the services it provides while managing its costs. The most significant cost factor affecting the System and the industry in general is the spiraling increase in labor costs due to a nationwide shortage of nurses and other healthcare specialists. The System expects the nursing shortage to continue and has implemented various initiatives to better position itself to attract and retain qualified nursing personnel and improve productivity.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at 3500 South Lafountain Street, Kokomo, Indiana 46904, (765) 453-0702.

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004 AND 2003

ASSETS		
	2004	2003
Current assets		
Cash and cash equivalents	\$ 4,269,590	\$ 3,890,387
Investments	9,733,449	7,454,483
Patient accounts receivable, net of estimated uncollectibles of \$7,709,000 in 2004 and \$6,442,000 in 2003	22,213,603	16,297,419
Other receivables	3,447,933	2,766,541
Inventory and other current assets	3,069,354	2,699,910
Current portion of assets whose use is limited	2,717,987	2,302,704
Total current assets	45,451,916	35,411,444
Assets whose use is limited		
Internally designated	6,557,704	6,631,448
Held by trustee	1,012,623	1,010,810
Total assets whose use is limited	7,570,327	7,642,258
Less current portion	(2,717,987)	(2,302,704)
Noncurrent portion of assets whose use is limited	4,852,340	5,339,554
Capital assets, net	54,660,434	44,115,680
Foundation assets	3,071,021	2,825,546
Other assets	1,611,322	2,302,688
Total assets	\$ 109,647,033	\$ 89,994,912

See accompanying notes to consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004 AND 2003

LIABILITIES AND NET ASSETS

	2004	2003
Current liabilities		
Accounts payable and accrued expenses	\$ 5,038,264	\$ 4,447,966
Estimated third party settlements	450,000	1,154,565
Accrued liabilities and other	8,651,067	5,963,808
Foundation liabilities	29,794	45,834
Other current liabilities	2,006,247	1,690,002
Current portion of long term debt		
Loans payable	631,099	191,761
Revenue bonds payable	2,868,403	2,110,943
Total current liabilities	19,674,874	15,604,879
Long term debt		
Loans payable	12,391,013	7,053,754
Revenue bonds payable	9,197,245	8,308,628
Total long term debt	21,588,258	15,362,382
 Total liabilities	41,263,132	30,967,261
 Minority interest	1,626,212	822,425
 Net assets		
Invested in capital assets, net of related debt	29,572,674	26,450,594
Restricted		
For debt service	1,012,623	1,010,810
Expendable for capital improvements	6,557,704	6,631,448
Expendable for other specific purposes	48,015	47,698
Held by Foundation	3,041,227	2,779,712
Total restricted net assets	10,659,569	10,469,668
Unrestricted	26,525,446	21,284,964
Total net assets	66,757,689	58,205,226
 Total liabilities and net assets	\$ 109,647,033	\$ 89,994,912

See accompanying notes to consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenues		
Net patient service revenue	\$ 122,943,053	\$ 97,709,091
Other	10,852,801	9,238,351
Total revenues	133,795,854	106,947,442
Operating expenses		
Salaries and wages	50,163,179	43,360,410
Employee benefits	12,342,533	10,540,926
Medical professional fees	4,168,147	2,866,030
Medical supplies and drugs	24,200,811	19,567,549
Purchased services	7,813,256	5,235,621
Equipment rentals	5,733,586	4,862,105
Utilities and telephone	2,133,841	1,646,130
Insurance	720,660	610,140
Depreciation and amortization	6,082,456	5,480,779
Other	10,878,233	9,162,432
Total expenses	124,236,702	103,332,122
Operating income	9,559,152	3,615,320
Nonoperating revenues (expenses)		
Investment income	1,375,023	1,170,028
Interest expense	(758,028)	(633,312)
Other nonoperating revenues (expenses)	(759,540)	1,703,490
Nonoperating revenues (expenses), net	(142,545)	2,240,206
Excess revenues over expenses before minority interest	9,416,607	5,855,526
Minority interest	(864,144)	(484,122)
Change in net assets	8,552,463	5,371,404
Net assets		
Beginning of year	58,205,226	52,833,822
End of year	\$ 66,757,689	\$ 58,205,226

See accompanying notes to consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating activities		
Cash received from patients and third party payors	\$ 116,322,304	\$ 95,813,062
Cash paid to vendors for goods and services	(53,711,906)	(44,931,181)
Cash paid for employee wages and benefits	(61,915,414)	(53,384,353)
Other receipts, net	9,229,117	10,457,719
Net cash flows from operating activities	9,924,101	7,955,247
Capital and related financing activities		
Acquisition and construction of capital assets	(16,362,371)	(7,890,828)
Proceeds from disposal of capital assets	-0-	4,243
Proceeds from long term debt	10,422,522	3,724,603
Interest on long term debt	(758,028)	(633,312)
Principal paid on long term debt	(2,999,848)	(2,226,138)
Net cash from flows capital and related financing activities	(9,697,725)	(7,021,432)
Investing activities		
Investment income	1,375,023	1,170,028
Investment in affiliated companies, net	691,366	(42,666)
Change in foundation assets	(245,475)	(323,748)
Other changes in investments and assets whose use is limited	(480,694)	(1,539,608)
Net cash flows from investing activities	1,340,220	(735,994)
Net change in cash and cash equivalents	1,566,596	197,821
Cash and cash equivalents, beginning of year	5,181,805	4,983,984
Cash and cash equivalents, end of year	<u>\$ 6,748,401</u>	<u>\$ 5,181,805</u>
Reconciliation of cash and cash equivalents		
In current assets	\$ 4,269,590	\$ 3,890,387
In investments	1,318,588	165,555
In assets whose use is limited - internally designated	147,600	115,053
In assets whose use is limited - held by trustee	1,012,623	1,010,810
Cash and cash equivalents, end of year	<u>\$ 6,748,401</u>	<u>\$ 5,181,805</u>

See accompanying notes to consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 9,559,152	\$ 3,615,320
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	6,082,456	5,480,779
Bad debts	6,475,424	5,034,082
Other nonoperating revenues and expenses	(759,540)	1,703,490
Minority interest	(864,144)	(484,122)
Loss on disposal of capital assets	-0-	77,896
Changes in current assets and liabilities		
Patient accounts receivable	(12,391,608)	(9,338,404)
Other receivables	(681,392)	(1,030,259)
Estimated third party settlements	(704,565)	2,408,293
Inventory and other current assets	(369,444)	(233,886)
Accounts payable and accrued expenses	590,298	145,476
Accrued liabilities and other	2,687,259	921,805
Foundation current liabilities	(16,040)	(846)
Other current liabilities	316,245	(344,377)
Net cash flows from operating activities	<u>\$ 9,924,101</u>	<u>\$ 7,955,247</u>
Supplemental disclosures of cash flow information		
Cash paid for interest, net of capitalized interest of \$272,000 in 2004 and \$169,000 in 2003	<u>\$ 633,312</u>	<u>\$ 660,668</u>
Noncash capital and related financing activities		
Property purchases in accounts payable	<u>\$ 264,839</u>	<u>\$ 371,507</u>

See accompanying notes to consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Howard Regional Health System (the System) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The System provides short-term inpatient and outpatient health care among other services. The Board of County Commissioners of Howard County appoints the Governing Board of the System and a financial benefit/burden relationship exists between the County and the System. For these reasons, the System is considered a component unit of Howard County.

Accounting principles generally accepted in the United States of America require that these consolidated financial statements present the System (primary government) and its significant component units. The component units discussed below are included in the System's reporting entity because of the significance of their operational or financial relationships with the System. Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

Howard Regional Health System Foundation, Inc. (Foundation) is a blended component unit of the System. The Foundation is a separate not-for-profit entity organized to support the operations of the System. Financial statements for the Foundation can be obtained by contacting the Foundation's offices.

Midwest Racquetball, Inc. (dba Kokomo Sports Center) is a blended component unit of the System. The Kokomo Sports Center is fiscally dependent on the System. Although it is legally separate from the System, the Sports Center is reported as if it were a part of the System because the two Governing Boards are substantially the same.

Other component units included in the consolidated financial statements based on the System's control of these entities are Howard Community Surgery Center, LLC, North Central Indiana Pediatric Center, LLC, Community OB/GYN Center, LLC, and Howard Primary Care Center, LLC. With the exception of Howard Community Surgery Center, LLC, the other entities were liquidated into departments of the System during 2004 and 2003.

All significant intercompany transactions have been eliminated in the consolidated financial statements.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The System utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Investments

Certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost or amortized cost which approximates fair value.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Mutual funds are reported at fair value based on the fund's market price. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating income in the consolidated statements of revenues, expenses and changes in net assets.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Patient Accounts Receivable and Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The System is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The System is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The System is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the System's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2001 with differences reflected as deductions from revenue in 2004. During 2004 and 2003, the System recognized approximately \$69,000 and \$231,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the System's customer base.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not collect amounts deemed to be charity care, they are not reported as revenue.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the consolidated financial statements. These assets include investments designated by the System's Board of Trustees for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service. These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statements of revenues, expenses and changes in net assets.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The System provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and fixed equipment	4-50 years
Major moveable equipment	5-15 years

Net Assets

Net assets of the System are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors or donors outside the System, including amounts deposited with trustees as required by revenue bond indentures, amounts designated for capital improvements and net assets held by the Foundation. Unrestricted net assets are remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The System's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating gains or losses.

Consolidated Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Bond Issue Costs

The System provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs net of accumulated amortization were approximately \$181,000 and \$224,000 as of December 31, 2004 and 2003, respectively.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value.

The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the System's long-term debt is estimated based on market prices for similar issues on current rates offered to the System. As of December 31, 2004 and 2003, the carrying value of the System's long-term debt approximated its fair value.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Federal or State Income Taxes

The System is exempt from taxation as a not-for-profit organization under the Internal Revenue Code as an extension of the county government and, therefore, no provision for income taxes has been made.

Investments in Affiliates

The System owns 33% of North Central Indiana Linen, Inc. and 50% of Imaging Center of North Central Indiana. These investments are recorded on the equity method of accounting in the System's consolidated financial statements in the other assets category.

Compensated Absences

The System's policy on compensated absences (which include vacation, sick leave and holidays) allows full time employees and regular part time employees to accrue days off, to a maximum of 480 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheets.

Litigation

The System is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position or results from operations.

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Reclassifications

Certain amounts from the 2003 financial statements have been reclassified to conform to the current year presentation.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

2. CHARITY CARE

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. Charity care provided was \$2,705,979 and \$3,071,416 for 2004 and 2003, respectively.

3. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31:

	2004	2003
Cash and cash equivalents	\$ 1,318,588	\$ 165,555
Mutual funds	8,414,861	7,288,928
	<u>\$ 9,733,449</u>	<u>\$ 7,454,483</u>

4. ASSETS WHOSE USE IS LIMITED

The classification of assets whose use is limited includes:

Internally designated - Amounts transferred by the System's Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the System buildings as authorized by IC 16-22-3-13.

Held by trustee - System funds deposited with a trustee and limited as to use in accordance with the requirements of a trust indenture.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use includes the following as of December 31:

	<u>2004</u>	<u>2003</u>
Internally designated		
Cash and cash equivalents	\$ 147,600	\$ 115,053
Mutual funds	<u>6,410,104</u>	<u>6,516,395</u>
	6,557,704	6,631,448
 Held by trustee		
Cash and cash equivalents	<u>1,012,623</u>	<u>1,010,810</u>
 Total assets whose use is limited	<u>\$ 7,570,327</u>	<u>\$ 7,642,258</u>

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Statutes authorize the System to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the System's name.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

December 31, 2004					
	Category			Reported Amount	Fair Value
	1	2	3		
Cash and equivalents	<u>\$ -0-</u>	<u>\$ 2,478,811</u>	<u>\$ -0-</u>	\$ 2,478,811	\$ 2,478,811
Investments not subject to categorization					
Open end mutual funds				14,824,965	14,824,965
Total investments				<u>\$ 17,303,776</u>	<u>\$ 17,303,776</u>
Current investments				\$ 9,733,449	\$ 9,733,449
Total assets whose use is limited				7,570,327	7,570,327
				<u>\$ 17,303,776</u>	<u>\$ 17,303,776</u>
December 31, 2003					
	Category			Reported Amount	Fair Value
	1	2	3		
Cash and equivalents	<u>\$ -0-</u>	<u>\$ 1,291,418</u>	<u>\$ -0-</u>	\$ 1,291,418	\$ 1,291,418
Investments not subject to categorization					
Open end mutual funds				13,805,323	13,805,323
Total investments				<u>\$ 15,096,741</u>	<u>\$ 15,096,741</u>
Current investments				\$ 7,454,483	\$ 7,454,483
Total assets whose use is limited				7,642,258	7,642,258
				<u>\$ 15,096,741</u>	<u>\$ 15,096,741</u>

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

6. CAPITAL ASSETS

A summary of capital assets includes the following as of December 31:

	12/31/03	Additions	Retirements/ Transfers	12/31/04
Land	\$ 212,650	\$ 143,879	\$ -0-	\$ 356,529
Land improvements	2,006,127	29,730	3,653	2,039,510
Buildings and improvements	49,627,713	12,766,582	(787,785)	61,606,510
Equipment	38,815,398	2,887,303	(982,624)	40,720,077
Construction in progress	5,296,597	7,246,848	(6,447,132)	6,096,313
Total capital assets	<u>95,958,485</u>	<u>23,074,342</u>	<u>(8,213,888)</u>	<u>110,818,939</u>
Less accumulated depreciation:				
Land improvements	624,027	131,939	-0-	755,966
Buildings and improvements	25,904,490	2,222,012	(1,393,394)	26,733,108
Equipment	25,314,288	3,728,505	(373,362)	28,669,431
Total accumulated depreciation	<u>51,842,805</u>	<u>6,082,456</u>	<u>(1,766,756)</u>	<u>56,158,505</u>
Capital assets, net	<u>\$ 44,115,680</u>	<u>\$ 16,991,886</u>	<u>\$ (6,447,132)</u>	<u>\$ 54,660,434</u>

	12/31/02	Additions	Retirements/ Transfers	12/31/03
Land	203,550	\$ 9,100	\$ -0-	\$ 212,650
Land improvements	2,012,546	14,950	(21,369)	2,006,127
Buildings and improvements	46,753,591	2,925,615	(51,493)	49,627,713
Equipment	35,962,313	4,530,632	(1,677,547)	38,815,398
Construction in progress	4,514,559	6,078,992	(5,296,954)	5,296,597
Total capital assets	<u>89,446,559</u>	<u>13,559,289</u>	<u>(7,047,363)</u>	<u>95,958,485</u>
Less accumulated depreciation:				
Land improvements	514,247	131,149	(21,369)	624,027
Buildings and improvements	24,190,038	1,867,560	(153,108)	25,904,490
Equipment	23,325,041	3,482,070	(1,492,823)	25,314,288
Total accumulated depreciation	<u>48,029,326</u>	<u>5,480,779</u>	<u>(1,667,300)</u>	<u>51,842,805</u>
Capital assets, net	<u>\$ 41,417,233</u>	<u>\$ 8,078,510</u>	<u>\$ (5,380,063)</u>	<u>\$ 44,115,680</u>

7. LONG TERM DEBT

The System has the following bond issues outstanding with the Indiana Health Facility Financing Authority (IHFFA) and other local financial institutions:

- 1996 IHFFA Revenue Bonds, original issue \$7,500,000, due through December 2005, variable interest rate of 3.96% as of December 31, 2004, secured by a letter of credit in the amount of approximately \$1,100,000 expiring in January 2006.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

- 1997 IHFFA Revenue Bonds, original issue \$6,800,000, due through January 2007, variable interest rate of 1.68% as of December 31, 2004, secured by a letter of credit in the amount of approximately \$1,900,000 expiring in January 2007.
- 2000 IHFFA Revenue Bonds, original issue \$3,000,000, due through February 2007, variable interest rate of 1.68% as of December 31, 2004, secured by a letter of credit in the amount of approximately \$1,600,000 expiring in January 2006.
- 2003 IHFFA Revenue Bonds, maximum issue \$7,856,000 with \$7,473,000 drawn as of December 31, 2004, due through May 2013, variable interest rate of 3.96% as of December 31, 2004, secured by a letter of credit in the amount of approximately \$7,856,000 expiring in October 2006.
- Loans payable with local financial institutions, due through 2026 at interest rates from 5.0% to 7.1% as of December 31, 2004, secured by certain System assets.

A summary of long term debt as of December 31, 2004 and 2003 follows:

	12/31/03	Additional Borrowings	Payments	12/31/04	Less current Portion	Total Long term Debt
1996 IHFFA \$7,500,000 Bonds	\$ 2,094,968	\$ -0-	\$ (1,010,943)	\$ 1,084,025	\$ 1,084,025	\$ -0-
1997 IHFFA \$6,800,000 Bonds	2,600,000	-0-	(700,000)	1,900,000	700,000	1,200,000
2000 IHFFA \$3,000,000 Bonds	2,000,000	-0-	(400,000)	1,600,000	400,000	1,200,000
2003 IHFFA \$7,856,000 Bonds	3,724,603	4,122,522	(374,040)	7,473,085	675,840	6,797,245
Notes payable	7,245,515	6,300,000	(514,865)	13,030,650	639,637	12,391,013
Total long term debt	<u>\$ 17,665,086</u>	<u>\$ 10,422,522</u>	<u>\$ (2,999,848)</u>	<u>\$ 25,087,760</u>	<u>\$ 3,499,502</u>	<u>\$ 21,588,258</u>

	12/31/02	Additional Borrowings	Payments	12/31/03	Less current Portion	Total Long term Debt
1996 IHFFA \$7,500,000 Bonds	\$ 3,037,756	\$ -0-	\$ (942,788)	\$ 2,094,968	\$ 1,010,943	\$ 1,084,025
1997 IHFFA \$6,800,000 Bonds	3,300,000	-0-	(700,000)	2,600,000	700,000	1,900,000
2000 IHFFA \$3,000,000 Bonds	2,400,000	-0-	(400,000)	2,000,000	400,000	1,600,000
2003 IHFFA \$7,856,000 Bonds	-0-	3,724,603	-0-	3,724,603	-0-	3,724,603
Notes payable	7,428,865	-0-	(183,350)	7,245,515	191,761	7,053,754
Total long term debt	<u>\$ 16,166,621</u>	<u>\$ 3,724,603</u>	<u>\$ (2,226,138)</u>	<u>\$ 17,665,086</u>	<u>\$ 2,302,704</u>	<u>\$ 15,362,382</u>

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Maturities for the years after December 31, 2004 are as follows:

Years Ending December 31,	Principal	Interest	Total
2005	\$ 3,499,502	\$ 1,144,398	\$ 4,643,900
2006	7,379,789	856,997	8,236,786
2007	1,961,317	712,958	2,674,275
2008	1,430,623	659,004	2,089,627
2009	1,104,934	609,431	1,714,365
2010-2014	4,875,835	2,240,746	7,116,581
2015-2019	1,679,847	1,449,952	3,129,799
2020-2024	2,154,729	782,391	2,937,120
2025-2026	1,001,184	84,011	1,085,195
	<u>\$ 25,087,760</u>	<u>\$ 8,539,888</u>	<u>\$ 33,627,648</u>

The bonds require the System to maintain certain financial ratios and restrictive covenants. As of December 31, 2004 and 2003, the System was in compliance with the financial ratios and covenants. The System has construction contract commitments of approximately \$5.1 and \$4.9 million outstanding as of December 31, 2004 and 2003, respectively.

The System has lines of credit with local financial institutions. The lines bear interest at rates ranging from a fixed rate of 5% to a variable rate of prime less .25% and expire through October 2005. There were no borrowings outstanding on the lines of credit as of December 31, 2004 and 2003.

8. PENSION PLAN

The System has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the System's Board of Trustees and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. Contact the System's human resource department for information on the plan.

Employer contributions to the plan for 2004 and 2003 were \$2,592,027 and \$2,163,896, respectively. The current employer contribution rate is 8% of annual covered payroll.

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

9. PATIENT SERVICE REVENUE

Patient service revenue for 2004 and 2003 consists of the following:

	2004	2003
Inpatient routine services	\$ 31,105,960	\$ 26,549,473
Inpatient ancillary services	60,587,479	50,977,926
Outpatient ancillary services	147,891,918	117,682,095
Gross patient service revenue	239,585,357	195,209,494
Contractual allowance	110,166,880	92,466,321
Charity care	2,705,979	3,071,416
Bad debts	6,475,424	5,034,082
Deductions from revenue	116,642,304	97,500,403
Net patient service revenue	<u>\$ 122,943,053</u>	<u>\$ 97,709,091</u>

GASB requires bad debts to be reported as a deduction from gross patient service revenue.

10. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Leases expire through 2007. Total rental expense in 2004 and 2003 for all operating leases was \$2,495,674 and \$2,034,076, respectively.

11. CONCENTRATIONS

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors as of December 31, 2004 and 2003 was as follows:

	2004	2003
Medicare	25%	24%
Medicaid	10%	15%
Blue Cross	17%	20%
Other third party payors	29%	26%
Self-pay	19%	15%
	<u>100%</u>	<u>100%</u>

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

The System maintains its cash in accounts, which at times may exceed federally insured limits. The System has not experienced any losses in such accounts. The System believes it is not exposed to any significant credit risk on cash and cash equivalents.

12. COMPONENT UNITS AND INVESTMENT IN AFFILIATED COMPANIES

North Central Indiana Linen Service, Inc.

The System owns 33% of North Central Indiana Linen Service. The investment is accounted for under the equity method. Summarized financial information as of December 31 follows:

	2004	2003
Current assets	\$ 190,917	\$ 186,917
Noncurrent assets	1,228,824	1,256,921
Current liabilities	416,177	45,317
Noncurrent liabilities	421,967	920,865
Equity	581,597	477,656
Revenue	1,753,840	1,705,700
Net income	95,209	96,387

Imaging Center of North Central Indiana

The System entered into an agreement with St. Joseph's Hospital, DCNHS of Kokomo, Indiana, and established the Imaging Center of North Central Indiana, a 501(c)(3) corporation, whose exempt purpose is the provision of magnetic imaging services to the residents of the Kokomo area. Howard Regional Health System and Saint Joseph's Hospital are equal corporate members. The investment is recorded on the equity method. Summarized financial information as of December 31 follows:

	2004	2003
Assets	\$ 11,066,309	\$ 4,896,032
Liabilities	8,664,869	1,057,524
Equity	2,401,440	3,838,508
Revenue	4,043,993	4,554,992
Net income (loss)	(437,068)	2,012,688

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Howard Primary Care Clinic, LLC

The System is the sole member of Howard Primary Care Clinic, LLC. The financial information is included in the System's consolidated financial statements. During 2004, Howard Primary Care Clinic was liquidated and became a department of the System. All assets and liabilities were combined with the System. The following is a summary of the financial information as of December 31, 2003:

	2003
Current assets	\$ 384,072
Noncurrent assets	48,459
Current liabilities	151,150
Equity	281,381
Revenue	1,182,788
Net loss	(791,046)

Midwest Racquetball, Inc.

The System is the sole member of Midwest Racquetball, Inc. (dba Kokomo Sports Center). The financial information is included in the System's consolidated financial statements. The following is a summary of the financial information as of December 31:

	2004	2003
Current assets	\$ 98,379	\$ 68,132
Noncurrent assets	714,395	757,596
Current liabilities	317,588	282,349
Long term liabilities	37,000	-0-
Equity	458,186	543,379
Revenue	754,059	703,741
Net income (loss)	16,383	(2,404)

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

Howard Community Surgery Center

The System owns a majority share in the Howard Community Surgery Center, with the remaining portion owned by minority parties. The following financial information for the Howard Community Surgery Center as of December 31 has been consolidated with the System's activity with the minority interest reported separately:

	2004	2003
Current assets	\$ 2,692,870	\$ 2,827,666
Noncurrent assets	829,869	1,145,919
Current liabilities	546,611	2,128,290
Equity	2,976,128	1,845,295
Revenue	8,017,726	6,185,537
Net income	1,980,833	1,058,544

Howard Regional Health System Foundation, Inc.

The Foundation is a blended component unit of the System. The financial information for the Foundation as of December 31 is as follows:

	2004	2003
Cash and cash equivalents	\$ 289,167	\$ 860,160
Investments	2,781,854	1,965,386
Current liabilities	29,794	45,834
Net assets	3,041,227	2,779,712
Revenue	559,619	654,810
Change in net assets	225,320	324,594

13. FUNCTIONAL EXPENSES

The System is an acute care facility that also provides long-term care and home health services. The System provides inpatient, outpatient and other ancillary services to residents within its geographical location. Expenses related to providing these services approximate the following for the years ended December 31:

	2004	2003
Health care services	\$ 109,701,008	\$ 91,242,264
Administrative and general	14,535,694	12,089,858
	<u>\$ 124,236,702</u>	<u>\$ 103,332,122</u>

HOWARD REGIONAL HEALTH SYSTEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

14. COMMITMENTS AND CONTINGENCIES

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position or results from operations.

For approximately a six month period in 2001, the System was insured for malpractice through PHICO Insurance Company. In 2002, PHICO was placed into liquidation by the Pennsylvania Department of Insurance. Due to the financial circumstances of PHICO, the System obtained malpractice coverage through another carrier during 2002. The System may be liable for the first \$100,000 of any pending PHICO claims. Amounts in excess of \$100,000 are covered by the Indiana Patient's Compensation Fund.

15. SELF FUNDED HEALTH INSURANCE

The System is self funded for medical and related health benefits provided to employees and their families. A stop/loss policy through commercial insurance covers individual claims in excess of \$100,000 per year. Provisions are made for unexpected and unusual claims.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self funded health insurance and related expenses were \$5,837,629 and \$4,718,716 in 2004 and 2003, respectively.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

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The following are summaries of certain provisions of the documents described below. These summaries are qualified in their entirety by reference to the particular documents. Capitalized terms in these summaries not defined in this Official Statement shall have the meanings set forth in the particular documents.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

General

The Series 2005 Notes and the Bank Notes will be issued pursuant to the Master Indenture. The Master Indenture will entitle each holder of a Note issued thereunder, including the Bond Trustee as holder of the Series 2005 Notes and each Credit Enhancer as holder of the applicable Bank Note, to the protection of the covenants, restrictions and other obligations imposed upon the Borrower contained therein.

Each Note or series of Notes issued as security for an issue of Related Bonds will contain such provisions for prepayment as will permit prepayment or redemption prior to maturity of such Related Bonds in accordance with their terms. The number of Notes or series of Notes that may be issued by an Obligated Issuer under the Master Indenture is not limited. Indebtedness not evidenced by a Note may be incurred by an Obligated Issuer. An Obligated Issuer will agree not to incur any additional indebtedness other than the Additional Indebtedness described below under “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness.”

The Notes will be absolute and unconditional obligations of the Obligated Group.

Restrictions on Mortgages

Each Obligated Issuer, respectively, agrees that it will not create or suffer to be created or exist any Mortgage upon Property now owned or hereafter acquired by it, other than Permitted Encumbrances (as defined below), without effective provision being made, in each instance and by the instrument creating such Mortgage, whereby each series of Notes issued and Outstanding under the Master Indenture are directly secured thereby equally and ratably with the Indebtedness to be issued and secured by such Mortgage. Any Permitted Encumbrances properly granted under the Master Indenture and any claim arising therefrom or related thereto will be senior in priority and prior to the lien of the Master Trustee in the Trust Estate if so designated by the Obligated Issuer creating such Permitted Encumbrances.

Permitted Encumbrances consist of the following:

(a) liens arising by reason of good faith deposit with any Obligated Issuer in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(b) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Issuer, an Insurance Subsidiary or a Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen’s compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits for companies participating in such arrangements;

(c) any judgment lien against any Obligated Issuer or a Subsidiary so long as the finality of such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations of the Obligated Group relating to the Operating Assets;

(d) (1) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of

such Property or materially and adversely affect the value thereof or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property, (2) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents or resulting from governmental regulations on the use of Property, and other governmental and similar charges and any liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereof is stayed, (3) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title of any Property which do not materially impair the use of such Property or which do not materially and adversely affect the value thereof, (4) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner which rights do not materially and adversely affect the use of such Property or the value thereof, and (5) to the extent that it affects title to any Property, the Master Indenture;

(e) any liens on the Property of the Borrower existing on August 1, 2005, and listed on Exhibit A to the Master Indenture, provided that no such lien may be extended or renewed, or modified to cover additional Property;

(f) any Mortgage securing Project Indebtedness;

(g) encumbrances arising from grants, loans and/or guaranties of the United States of America pursuant to 42 U. S. C. § 291 et seq., and/or 42 U. S. C. § 300 et seq. and other encumbrances arising from grants or loans from, or guaranties of Indebtedness by federal, state and local governments or agencies thereof, certified in an Officer's Certificate, to be similar in nature to the encumbrances described in the first part of this clause (g);

(h) Mortgages, security interests, liens, charges and encumbrances permitted under the Master Indenture;

(i) any lease described under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Sale, Lease or Other Disposition of Cash, Securities and Operating Assets" herein;

(j) any lien, encumbrance or security interest created by the Master Indenture;

(k) any other Mortgage of Property provided that each Obligated Issuer shall certify in an Officer's Certificate delivered to the Master Trustee that, after giving effect thereto, the aggregate principal and amount of Indebtedness secured by such Mortgage does not exceed 20% of the aggregate Book Value of the Property of the Obligated Group as reflected on the combined balance sheet for the most recent available Fiscal Year;

(l) a Mortgage constituting a lien on accounts receivable securing Indebtedness incurred for a sale of accounts receivable; provided that each Obligated Issuer shall certify in an Officer's Certificate delivered to the Master Trustee that, after giving effect thereto, the aggregate principal amount of Indebtedness subject to such Mortgages will not exceed 25% of the Total Revenues of the Obligated Group as reflected on the audited financial statements for the most recent available Fiscal Year;

(m) a Mortgage on any Excluded Property;

(n) a Mortgage securing Subordinated Indebtedness;

(o) any Mortgage, with respect to any Property of any Person which is existing on the date that such Person shall become an Obligated Issuer hereunder or shall merge or consolidate with an Obligated Issuer and which shall not have been incurred in contemplation of such event; provided that no such Mortgage, so described or the Indebtedness secured thereby may be extended or renewed or modified to spread to any Property not subject to such Mortgage, on the date of such event, except to the extent that such Mortgage, as so extended, renewed or modified could have been granted or created under any provision of the Bond Indenture; and

(p) security interest in funds or securities posted in a collateral account held by a counterparty or a third party custodian securing the obligations of an Obligated Issuer under an Interest Rate Agreement.

Permitted Additional Indebtedness

Each Obligated Issuer may only incur the following Additional Indebtedness:

(a) Long-Term Indebtedness, provided that each Obligated Issuer shall certify in an Officer's Certificate delivered to the Master Trustee:

(i) the use or uses and estimated cost of the facilities, if any, to be financed with such Long-Term Indebtedness if other than a Guaranty; and

(ii) that either:

(A) the Debt Service Coverage Ratio, after giving effect to the issuance of the Long-Term Indebtedness then proposed to be issued, for each of the two most recent fiscal years for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, is at least 1.10 as shown in a Certificate of the Obligated Group Representative; or

(B) (v) the Debt Service Coverage Ratio for each of the two most recent Fiscal Years for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, is at least 1.10 as shown in a Certificate of the Obligated Group Representative and (w) the Debt Service Coverage Ratio for each of the two fiscal years beginning after the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for each of the two Fiscal Years beginning after the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least 1.10, as shown in a certificate of the Obligated Group Representative; provided, however, that if the Debt Service Coverage Ratio for each of the two Fiscal Years described in subsection (B)(w), is less than 1.25, an Independent Consultant (the findings of which may be based insofar as they relate to historical financial statements, upon a report or opinion of a firm of Independent Accountants) must confirm such certificates; provided, further, that the requirements of this foregoing subsection (B)(v) or (w), as the case may be, shall be deemed satisfied if the Master Trustee receives a report of an Independent Consultant indicating that (x) applicable laws or regulations have prevented the Obligated Group from generating the Net Income Available for Debt Service required to be generated under (B)(v) or (w), as the case may be, (y) the rates being charged or to be charged by the Obligated Group are or will be such that, in the opinion of such Independent Consultant, the Obligated Group is generating the maximum amount of Net Income Available for Debt Service reasonably practicable given such law or regulations and (z) each of the Debt Service Coverage Ratios in subsection (B)(v) and (w) is at least 1.00; or

(iii) the Funded Indebtedness Ratio, after giving effect to the incurrence of such Indebtedness, does not exceed .65:1.

(b) Completion Indebtedness, provided that a certificate of an architect is filed with the Master Trustee stating (i) the necessity for (A) the improvement, replacement, renovation or substitutions for or additions to facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred due to faulty design, damage to or destruction of such facilities or (B) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, (ii) that such proposed facilities are within the original scope contemplated at the time such Long-Term or Interim Indebtedness was incurred, (iii) the amount of such Completion Indebtedness needed, (iv) the use to which the proceeds of such Completion Indebtedness will be put, and (v) the amount of such Completion Indebtedness, together with other available funds, are expected to be sufficient to complete such facilities.

(c) Refunding Indebtedness, provided, the issuance of such Indebtedness does not cause the maximum annual scheduled debt service on Long-Term Indebtedness for the then current or any succeeding Fiscal Year to increase by more than 10%.

(d) Short-Term Indebtedness, provided that the principal amount of such Indebtedness shall be limited to 15% of Total Revenues of the Obligated Group, provided further that all Short-Term Indebtedness shall be reduced to no more than 3% of the Total Revenues of the Obligated Group for at least 20 consecutive days during any Fiscal Year except a Fiscal Year during the last 120 days of which any third party reimburer or insurer providing in excess of 20% of the Total Revenues of the Obligated Group is in arrears in excess of 120 days of accounts payable to any Obligated Issuer. Any amount in excess of such 15% limitation shall be required to meet the tests set forth in (a)(ii) above.

(e) Project Indebtedness.

(f) Subordinated Indebtedness.

(g) Interim Indebtedness incurred in anticipation of the issuance of additional Long-Term Indebtedness, provided that at the time such Interim Indebtedness is incurred or renewed (i) the anticipated refinancing thereof by the issuance of Long-Term Indebtedness is reasonably expected to be completed within the following 48 months and (ii) the Obligated Group Representative shall certify that all requirements of (a)(ii) above would be satisfied if such indebtedness were being incurred with substantially equal annual payments to be paid for principal and interest over a term which is the greater of 25 years or the weighted average useful life of the facilities being financed with an interest rate equal to the Projected Rate.

(h) Balloon Indebtedness so long as the Obligated Group Representative certifies that all requirements of (a)(ii) above would be satisfied if the maturity or maturities constituting the balloon payment had been issued over a term of 25 years at an interest rate equal to the Projected Rate and was payable in approximately equal annual payments of principal and interest.

(i) Put Indebtedness, so long as the Obligated Group Representative certifies that all requirements of (a)(ii) above would be satisfied if the Indebtedness had been issued over a term of 25 years at an interest rate equal to the Projected Rate and was payable in approximately equal installments of principal and interest.

(j) Commitment Indebtedness.

(k) Indebtedness consisting of accounts payable incurred in the ordinary course of business or other Indebtedness not incurred or assumed primarily to assure the repayment of money borrowed or credit extended which Indebtedness is incurred in the ordinary course of business.

(l) Indebtedness incurred in connection with a sale of accounts receivable with recourse by any Obligated Issuer consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such Indebtedness permitted hereby shall not exceed the aggregate sale price of such accounts receivable received by such Obligated Issuer and provided further, the aggregate sale price of the accounts receivable shall not be less than fair market value.

(m) Indebtedness the principal amount of which at the time incurred, together with the aggregate principal amount of all other Indebtedness then outstanding which was issued pursuant to the provisions of this subsection (m) and which has not been subsequently reclassified as having been issued under another subsection, does not exceed 20% of the Total Revenues of the Obligated Group for the latest preceding Fiscal Year for which combined financial statements reported upon by Independent Accountants are available.

It is agreed and understood by the parties to the Master Indenture that various types of Indebtedness may be incurred under any of the above-referenced subsections with respect to which the tests set forth in such subsection are met and need not be incurred under only a subsection specifically referring to such type of Indebtedness. It is further agreed and

understood that the assumptions set forth in this section of the Bond Indenture are applicable to the calculation of the Debt Service Coverage Ratio under the Bond Indenture.

No debt service shall be deemed payable with respect to Commitment Indebtedness until such time as funding occurs under the commitment which gave rise to such Commitment Indebtedness. From and after such funding, the amount of such debt service shall be calculated in accordance with the actual amount required to be repaid on such Commitment Indebtedness and the actual interest rate and amortization schedule applicable thereto. No Additional Indebtedness shall be deemed to arise when any funding occurs under any such commitment or any such commitment is renewed upon terms which provide for substantially the same terms of repayment of amounts disbursed pursuant to such commitment as obtained prior to such renewal. In addition, no Additional Indebtedness shall be deemed to arise when Indebtedness which bears interest at a variable rate of interest is converted to Indebtedness which bears interest at a fixed rate or the method of computing the variable rate on such Indebtedness is changed or the terms upon which Indebtedness, if Put Indebtedness, may be or is required to be tendered for purchase are changed, if such conversion or change is in accordance with the provisions applicable to such variable rate Indebtedness or Put Indebtedness in effect immediately prior to such conversion or change.

Each Obligated Issuer may elect to have Indebtedness issued pursuant to one provision described above, including without limitation subsection (m), reclassified as having been incurred under another provision described above, by demonstrating compliance with such other provision on the assumption that such Indebtedness is being reissued on the date of delivery of the materials required to be delivered under such other provision including the certification of any applicable Projected Rate. From and after such demonstration, such Indebtedness shall be deemed to have been incurred under the provision with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

Restrictions on Guaranties

Each Obligated Issuer covenants that they will not enter into or become liable after the date of the Master Indenture on any Guaranty unless (i) such Guaranty could then be incurred as Long-Term Indebtedness under clause (a) of the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” or (ii) such Guaranty is of the Indebtedness of another member of the Obligated Group or of Related Bonds.

Covenant as to Coverage of Debt Service

If the Debt Service Coverage Ratio, as calculated at the end of any fiscal year of the Borrower or any other Obligated Issuer, is below 1.10, the Borrower and all other Obligated Issuers will retain an Independent Consultant to make recommendations to increase the Debt Service Coverage Ratio for subsequent fiscal years to at least 1.10 or, if in the opinion of such Independent Consultant the attainment of such level is impracticable, to the highest practicable level. The Borrower and each other Obligated Issuer will follow the recommendations of the Independent Consultant, to the extent feasible, and promptly upon receipt of such recommendations, subject to existing law and applicable third-party payor programs or agreements, shall revise their respective rates, fees, or charges or methods of operation and shall take such other action as shall be in conformity with such recommendations; provided, however, that if the Obligated Group does not meet the rate covenant as a result of existing laws, regulations or third party payor agreements, the Obligated Group Representative shall provide to the Master Trustee an Opinion of Counsel stating that the reasons for not meeting the rate covenants were valid. So long as the Borrower and each Obligated Issuer follow the Independent Consultant's recommendations, the Master Indenture covenant as to coverage of debt service shall be deemed to have been complied with even if the Debt Service Coverage Ratio for any subsequent fiscal year is below 1.10 and no Event of Default will occur under the Master Indenture unless and until such Debt Service Coverage Ratio falls below 1.00.

Sale, Lease or Other Disposition of Cash, Securities and Operating Assets

(a) Except as provided below, each Obligated Issuer will not sell, lease or otherwise dispose of any of its cash, securities or other cash equivalents or Operating Assets (other than in the ordinary course of business or as described hereinafter) unless such Obligated Issuer certifies in an Officer's Certificate delivered to the Master Trustee that:

(i) with respect to the sale, lease or disposition of Operating Assets, in the judgment of such Obligated Issuer, such assets have become, or within the next succeeding 24 calendar months are reasonably expected to become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and such sale, lease or other disposition will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets; or

(ii) such sale, lease or disposition is solely from any Obligated Issuer or Issuers to any Obligated Issuer or Issuers; or

(iii) if the sale, lease or disposition will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets, then either (A) the leasing of all or any part of its Operating Assets is pursuant to the reasonable requirements of such Obligated Issuer and upon terms no less favorable to such Obligated Issuer than are obtainable in a comparable arm's length transaction or (B) the sale or disposition of all or any part of its Operating Assets is pursuant to the reasonable requirements of such Obligated Issuer and for consideration, which shall take the form of cash, securities or real or personal property, having a fair market value at least equal to the fair market value of such Operating Assets sold or disposed of; or

(iv) immediately after such transaction, either:

(A) the Debt Service Coverage Ratio for the most recent 12 consecutive calendar months for which audited financial statements are available preceding the proposed date of such transaction, assuming such transaction actually occurred at the beginning of such period, would not be less than 1.25; or

(B) The Debt Service Coverage Ratio for each of the two fiscal years beginning immediately following the proposed date of such transaction is projected to be: (i) greater than 1.50 or (ii) higher than it would have been had such transactions not been effected; or

(v) such sale, lease or disposition involves only Excluded Property.

(b) The Borrower or any other Obligated Issuer may sell, lease or otherwise dispose of its cash, securities or other cash equivalents or Operating Assets (other than in the ordinary course of business) without satisfying the conditions of the Master Indenture, if such cash, securities or other cash equivalents, or Operating Assets are sold, leased, conveyed, transferred or otherwise disposed of as described under this heading and the face value of the cash, securities or other cash equivalents disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of in any one Fiscal Year does not exceed 10% of the aggregate Book Value of all Property of the Obligated Group as reflected on the financial statements of the Obligated Group as of the beginning of such Fiscal Year. The Borrower or any other Obligated Issuer may dispose of its assets as described above to any Subsidiary as long as such assets disposed of do not exceed ten percent (10%) of the aggregate Book Value of all Property of the Obligated Group as reflected on the financial statements of the Obligated Group as of the beginning of such Fiscal Year.

(c) The Borrower may sell or lease all or a portion of its real property to the Indiana Health and Educational Facility Financing Authority (pursuant to the provisions of Indiana Code 16-22-3-18.5) or to the Howard County Hospital Association (pursuant to Indiana Code 16-22-6-26) in order to effect a lease financing transaction, as provided in the referenced statutes. Any such lease transaction shall be secured on a parity with all Notes outstanding under the Bond Indenture.

If any sale, lease or disposition permitted under clause (a)(ii), (a)(iii) or (a)(iv) above is to any organization other than a Tax-Exempt Organization or if such property is reasonably expected to be used for a purpose other than the organization's exempt purpose, prior to such sale, lease or disposition there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance acceptable to the Master Trustee, to the effect that such sale, lease or disposition would not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on any issue of Related Bonds then outstanding under a Related Bond Indenture.

Obligated Issuer Defined

An Obligated Issuer must agree, in a manner satisfactory to the Master Trustee, to be jointly and severally liable to pay all Indebtedness evidenced by all Notes issued under the Master Indenture and Outstanding at the time of its becoming an Obligated Issuer, when due, and it becomes obligated under the Master Indenture by agreeing to comply with substantially the same covenants, and being subject to substantially the same restrictions, as the Borrower. An Obligated Issuer would also be permitted to issue Notes under the Master Indenture if the requirements for such issuance are met. By virtue of the joint and several liability of all members of the Obligated Group, the Master Trustee may pursue any remedies consequent upon an Event of Default against any Obligated Issuer or all or any combination of them without notice to or demand upon (and without in any way releasing) any of the others, or against any one or more or all of them at the same time or at different times. Along with other considerations, a Person may not become an Obligated Issuer until the Master Trustee receives a report by an Independent Consultant which demonstrates that after giving effect thereto, there would not be a default under the Master Indenture and that any member of the Obligated Group would meet the conditions described in subsection (a)(ii) under “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” herein for the incurrence of one dollar of Long-Term Additional Indebtedness. Also included in the conditions precedent to any Person becoming an Obligated Issuer is the requirement that the Master Trustee receive an Opinion of Counsel that all provisions of federal and state securities laws relating to the transaction have been complied with and an Opinion of Bond Counsel to the effect that the consummation thereof would not adversely affect the exclusion for federal income tax purposes of interest payable on any issue of Related Bonds then outstanding under a Related Bond Indenture.

Any Obligated Issuer, upon 30 days written notice to the Master Trustee, may withdraw from the Obligated Group if, among other things, the Obligated Issuer requesting release will furnish the Master Trustee with: (A) evidence, that immediately upon any such Person withdrawing as an Obligated Issuer, the Obligated Group, would meet the conditions described in subsection (a)(ii) under “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” herein for the incurrence of one dollar of Long-Term Additional Indebtedness; (B) a certificate of the Obligated Group Representative that the Debt Service Coverage Ratio for the Fiscal Year immediately following such withdrawal is expected to be (i) greater than 1.10 or (ii) higher than it would have been had such withdrawal not been effected (measured as if withdrawals occurring in the same Fiscal Year but prior to the withdrawal in question had not occurred); (C) a certified copy of the resolution of the Governing Body of such Obligated Issuer requesting such release; (D) certified copies of the resolutions of the Governing Bodies of all remaining members of the Obligated Group consenting to such release and reaffirming their continuing joint and several liability under any Notes issued by the withdrawing Obligated Issuer; and (E) an Opinion of Bond Counsel to the effect that such withdrawal would not affect the exclusion from gross income for federal income tax purposes of interest on any then Outstanding Related Bonds.

Consolidation, Merger, Sale or Conveyance

Each Obligated Issuer, respectively, covenants that it will not merge or consolidate with any other corporation not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group unless (i) either (A) such Issuer shall be the continuing corporation, or (B) the successor corporation if other than such Issuer (the “Successor Corporation”) shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such Successor Corporation shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Bond Indenture to be performed or observed by such Issuer by supplemental indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such Successor Corporation; and (ii)(A) such Issuer or such Successor Corporation, as the case may be, immediately after such merger or consolidation, or such sale or conveyance, would not be in default in the performance or observance of any such covenants or conditions of the Bond Indenture and (B) the conditions described in clause (a)(ii) under “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Permitted Additional Indebtedness” would be met for the incurrence of one dollar of Long-Term Additional Indebtedness by such Issuer or Successor Corporation after giving effect to the proposed transaction; and (iii) there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such merger, consolidation, sale or conveyance would not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on any issue of Related Bonds then

outstanding under a Related Bond Indenture and to the effect that such transaction would not cause the Related Bonds to become subject to the registration requirements of the Securities Act of 1933, as amended (or it has been properly registered) or affect the exemption of the Related Bond Indenture or the Bond Indenture from qualification under the Trust Indenture Act of 1939, as amended (or has been qualified thereunder).

Insurance and Reductions in Coverage

Each Obligated Issuer will maintain an insurance plan covering such risks and in such amounts as, in its judgment, is adequate to protect it and its Property and operations and will review such coverage annually. Such insurance plan is subject to the review of an Independent Insurance Consultant, who shall make such review in light of existing claims of each Obligated Issuer and current conditions. Each Obligated Issuer agrees that it will follow any recommendation of such consultant.

If the Borrower or any other Obligated Issuer has or hereafter obtains any of the following types of insurance, whether from an Insurance Subsidiary or other insurer, it must secure the approval of an Independent Insurance Consultant before it may reduce or eliminate the amount of its insurance coverage for the following types of insurance: (i) comprehensive general public liability insurance including product liability, blanket contractual liability and automobile insurance including owned, non-owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, tornadoes, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard extended coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such perils, (iii) workman's compensation insurance, (iv) boiler insurance, and (v) professional liability or medical malpractice insurance, provided that (a) with respect to activities conducted in the State of Indiana, any Obligated Issuer may not reduce its professional liability or medical malpractice insurance to a coverage of less than the minimum amount required by Indiana Code 34-18 (the "Malpractice Act") so long as such Obligated Issuer is qualified thereunder unless the Malpractice Act is determined by judicial decision which is not subject to further appellate review to be unconstitutional and invalid either in its entirety or as to limits on recovery and in such event such Obligated Issuer may not reduce its coverage to an amount less than the typical amount maintained nationwide by similar sized hospitals and (b) with respect to activities conducted outside the State of Indiana, the Borrower or such Obligated Issuer may not reduce their coverage to an amount less than the typical amount maintained nationwide by similar sized hospitals. Notwithstanding the foregoing, the Borrower shall not be permitted to eliminate the coverage described in clause (v) above.

In making its decision whether to approve such reductions or eliminations, the Independent Insurance Consultant shall (i) make an estimate of the added financial risk, if any, assumed by the Obligated Issuer, as the case may be, as a result of the lower or amended coverage, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the cost of such available insurance, and the effect of such terms and such cost upon such Obligated Issuer's costs and charges for its services and (iii) determine whether the additional financial risk, if any, being assumed by such Obligated Issuer is prudent in light of the savings to be realized from lowered insurance premiums or in light of the general availability of such coverage.

Before any Obligated Issuer may enter into a program of self insurance against any particular risk for which it is not self-insuring on the date the Bonds are delivered, it must receive a certificate from an Independent Insurance Consultant to the effect that (i) such self insurance program shall not disqualify such Obligated Issuer for reimbursement under the Medicare or Medicaid programs or any governmental programs providing similar benefits and (ii) adequate reserves created by such Obligated Issuer for such self insurance program are deposited and maintained with an independent corporate trustee if recommended by the Independent Insurance Consultant, unless such deposits are not a necessary requirement for reimbursement under the governmental programs referred to in clause (i) above and regulations thereunder then in effect. If any Obligated Issuer enters into a program of self insurance, such Obligated Issuer agrees (a) to provide the Master Trustee annually within 120 days of the end of each Fiscal Year a written evaluation with respect to such self insurance program by an Independent Insurance Consultant which evaluation shall contain or be accompanied by a recommendation of an independent actuary as to what funding levels will be adequate to protect such Obligated Issuer against such claims, (b) to maintain with an independent corporate trustee such reserves as are recommended by the Independent Insurance Consultant, (c) to provide the Master Trustee certification showing compliance with clause (b) hereof, and (d) to maintain a risk management and claims management program pursuant to such self insurance program.

Damage, Destruction and Condemnation

In case of any damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets, the Obligated Group Representative will promptly give or cause to be given written notice thereof to the Master Trustee generally describing the nature and extent of such damage, destruction or taking. Unless the Obligated Group Representative exercises the option to direct the redemption of Notes pursuant to a Supplemental Master Indenture, the Obligated Group Representative shall, whether or not the Net Proceeds of insurance or award in eminent domain proceedings, if any, received on account of such damage, destruction or taking shall be sufficient for such purpose, promptly commence and complete or cause to be commenced and completed, the repair or restoration of the Operating Assets as nearly as practicable to the value, condition and character thereof existing immediately prior to such damage or destruction, with such changes or alterations, however, as the Obligated Group Representative may deem necessary for proper operation of the Operating Assets.

In connection with the repair or restoration of Operating Assets as described in the preceding paragraph, Net Proceeds of insurance or awards in eminent domain proceedings not in excess of 5% of the aggregate Book Value of all Property then owned by the members of the Obligated Group and not affecting more than 5% of Total Revenues shall be paid as directed by the Obligated Group Representative. If the Net Proceeds are greater than such amount, then the Net Proceeds shall be paid to and held by the Master Trustee in a separate insurance loss account, for application of as much as may be necessary of the Net Proceeds to the payment of the costs of repair, rebuilding or restoration, either on completion thereof or as the work progresses, as directed by the Obligated Group Representative. The Master Trustee may, prior to making payment from such insurance loss account, require the Obligated Group Representative to provide evidence that, or deposit with the Master Trustee moneys to be placed in such, insurance loss account so that, there will be adequate moneys available for such repair and restoration. The Master Trustee shall not be obliged to make any payment from such insurance loss account if there exists an event of default under the Master Indenture. Any balance of the Net Proceeds held by the Master Trustee remaining after payment of all costs of such repair, rebuilding or restoration shall be paid as directed by the Obligated Group Representative.

If, in lieu of repair or restoration, the Obligated Group Representative has exercised the option to direct the redemption of Notes pursuant to the provisions of one or more Supplemental Master Indentures, an amount equal to any Net Proceeds received by the Master Trustee prior to such redemption shall (together with any investment income therefrom) be credited against the amount payable by the Obligated Group pursuant to such Supplemental Master Indentures designated by the Obligated Group Representative to effect such redemption and such Net Proceeds together with any investment income therefrom shall be applied in accordance with the applicable Supplemental Master Indentures.

Other Covenants of the Borrower and Other Obligated Issuers

The Borrower and each Obligated Issuer respectively covenant, among other things, (a) to preserve its existence as a body corporate and politic or other successor corporate entity and all its rights, licenses and qualifications necessary or desirable in the operation of its business and affairs; (b) to procure and maintain all necessary licenses and permits, if it operates a hospital, to maintain accreditation of its health care facilities by the Joint Commission on Accreditation of Healthcare Organizations, and maintain the eligibility of its health care facilities for all third-party reimbursement programs, unless its Governing Body determines in good faith that compliance therewith is no longer in its best interest and lack of such compliance would not materially impair its ability to pay its Indebtedness when due and in the Opinion of Bond Counsel would not cause interest on any issue of Related Bonds then outstanding under a Related Bond Indenture, including the Bonds, to lose the exclusion from gross income for federal income tax purposes; (c) to carry on its business in an efficient manner and maintain its Property in good repair and working order, reasonable wear and tear excepted; (d) to conduct its affairs and carry on its business in compliance with all applicable laws of the United States and the several states thereof, and comply with all applicable rules or regulations of any governmental authority, provided, however, that it shall not be required to comply with such applicable laws, rules and regulations so long as the validity thereof shall be contested in good faith which shall operate during the pendency of which to stay or otherwise prevent the enforcement of such law, rule or regulation and the sale, forfeiture or loss of any of its Property in connection therewith; (e) to promptly pay all taxes, governmental charges and assessments against its Property unless contested by it in good faith; (f) to promptly satisfy and discharge all of its obligations and claims against it as they become due and payable, and all of its obligations and Indebtedness as and when due to the extent that the failure to so satisfy and

discharge would materially and adversely affect its consolidated or combined operations, revenues or financial condition; (g) to comply with the terms of all Mortgages existing upon its Property; (h) to maintain its status as a Tax-Exempt Organization described in Section 501(c)(3) of the Code, and its exemption from federal income taxation under Section 501(a) of the Code; (i) to file certain financial information periodically with the Master Trustee; and (j) under certain circumstances to file various reports with the Master Trustee.

Defaults and Remedies

Each of the following is an “Event of Default” under the Master Indenture:

(a) Failure to make any payment of the principal of, premium, if any, or interest on any Note or Notes or any Indebtedness collateralized or secured by any Note or Notes when due and payable and the continuance of such default beyond the period of grace, if any, as set forth in the applicable Supplemental Master Indenture or Related Bond Indenture;

(b) Failure to observe or perform any covenant or agreement contained in the Master Indenture or in a Supplemental Master Indenture for a period of 30 days after written notice of such failure has been given by the Master Trustee or by the holders of at least 25% in aggregate principal amount of Notes then Outstanding; provided that if any such default can be cured by any Obligated Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by any Obligated Issuer within such 30-day period and diligently pursued until the default is corrected;

(c) Default in the payment of any Indebtedness (other than Project Indebtedness or Notes) or an event of default as defined in any Mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced any Indebtedness then Outstanding, unless any Obligated Issuer in good faith commences proceedings to contest payment on such Indebtedness; provided further however, that the Indebtedness must be outstanding in an amount exceeding \$500,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date of the Master Indenture);

(d) Bankruptcy, insolvency, liquidation or other similar events;

(e) Any representation or warranty of any member of the Obligated Group set forth in the Master Indenture proves untrue in any material respect as of the date of issuance and is not corrected within 30 days after written notice by the Master Trustee to the Obligated Group Representative; or

(f) Any judgment, writ or warrant of attachment or any similar process in an amount in excess of \$500,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date of the Master Indenture) shall be entered or filed against any Obligated Issuer or against any of its Property and remains unvacated, unpaid, unbonded, uninsured or unstayed for a period of 60 days and the Obligated Group shall have failed to deposit with the Master Trustee within 15 calendar days of the receipt of written notice of such event, an amount sufficient to pay such judgment, writ or warrant of attachment or similar process in full.

Upon the occurrence of an Event of Default, then and in each and every such case, unless the principal of Notes shall have already become due and payable, the Master Trustee may, and if requested by the holders of, or one or more Related Bond Trustees acting on behalf of not less than 25% in aggregate principal amount of all Notes then Outstanding, the Trustee shall, by notice in writing to the members of the Obligated Group, declare the principal of all Notes to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in the Notes contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of all Notes shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the members of the Obligated Group shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Notes and the principal and premium, if any, of all such Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate specified in the applicable Supplemental Master Indenture) and the

fees and expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Notes that shall have become due by acceleration, shall have been remedied, the Master Trustee may, and upon the written request of the holders of a majority in aggregate principal amount of all Notes then Outstanding shall waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

The Master Trustee may institute any actions or proceedings available at law or in equity for the collection of sums due, and may collect such sums in a manner provided by law out of the Property of the Borrower and each other Obligated Issuer wherever situated.

Modifications

The Obligated Issuers and the Master Trustee may, without the consent of the holders of the Notes, enter into amendments or supplements to the Master Indenture to (a) add additional covenants of any Obligated Issuer for the protection of the holders of Notes (b) cure any ambiguity or defective provision of the Master Indenture as shall not impair the security of the Master Indenture or adversely affect the interests of the holders of the Notes (c) evidence a succession of another corporation to the agreements of the Obligated Issuers, or their successors under the Master Indenture; (d) qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal or state statute or regulation; (e) evidence additions to, or withdrawals from, membership in the Obligated Group; (f) provide for substitute trustees or co-trustees in accordance with the Master Indenture; (g) provide for the issuance of coupon Notes if in the Opinion of Bond Counsel the issuance of Notes in coupon form will not adversely affect the exclusion from gross income for federal income tax purposes of interest payable on Related Bonds; and (h) in connection with any other change therein which, in the judgment of the Master Trustee, does not materially adversely affect the Master Trustee or the holder of the Notes.

The Obligated Issuers and the Master Trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes then Outstanding, otherwise amend or supplement the Master Indenture, subject to the provisions contained in the Master Indenture requiring that no such amendment or supplement shall change the times, amounts or currency of the payment of the principal of, premium, if any, or interest payable on any Note without written consent of the holder of such Note; except for any Notes issued with respect to Subordinated Indebtedness, permit the preference or priority of any Note or Notes over any other Note or Notes without written consent of holders of all Notes then Outstanding; or reduce the principal amount or redemption price of any Note or the rate of interest thereon or the aforesaid percentage of Notes the holders of which are required to consent to any such amendment or supplement; or modify the right of the holders of not less than 25% in aggregate principal amount of any series of Notes in default as to payment of principal, premium or interest to compel the Master Trustee to declare the principal of all Notes to be due and payable without the consent of the holders of a majority in aggregate principal amount of the Notes of such series then Outstanding. For purposes of obtaining such consents, each Related Bondholder is deemed a noteholder to the extent of the Related Bonds held.

Satisfaction and Discharge of Indenture

If, when the Notes secured by the Master Indenture shall become due and payable in accordance with their terms or otherwise as provided in the Master Indenture and the whole amount of the principal of, and premium, if any, and interest due and payable upon, all of the Notes shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable under the Master Indenture, then the right, title and interest of the Master Trustee to the property pledged thereby and all covenants, agreements and other obligations of the Obligated Issuers to the holders of Notes issued thereunder shall thereupon cease, terminate and become void, discharged and satisfied. In such event, upon the request of the Obligated Group Representative, the Master Trustee shall execute such documents as may be reasonably required by the Obligated Group Representative to accomplish and evidence such satisfaction and discharge.

All Outstanding Notes of any one or more series issued under the Master Indenture shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in this Section if (i) in case said Notes are to be redeemed on any date prior to their maturity, the Obligated Group Representative shall have given to the Master Trustee irrevocable instructions to give on a date in accordance with the provisions of the

Master Indenture notice of redemption of such Notes on said redemption date, such notice to be given in accordance with the provisions of the Master Indenture, (ii) there shall have been deposited with the Master Trustee either moneys in an amount which shall be sufficient, or Federal Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on said Notes on and prior to the redemption date or maturity date thereof, as the case may be and (iii) in the event said Notes are not by their terms subject to redemption within the next 30 days, the Obligated Group Representative shall have given the Master Trustee irrevocable instructions to give, as soon as practicable in the same manner as the notice of redemption is given pursuant to the Master Indenture, a notice to the holders of such Notes that the deposit required by (ii) above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Notes; provided, however, that no Outstanding Note shall be deemed to have been paid as above unless any Related Bonds with respect to such Note shall no longer be deemed to be outstanding under the Related Bond Indenture or the Related Bond Trustee shall have certified that the lien of the Related Bond Indenture secured by such Notes has been released and discharged pursuant to its terms.

SUPPLEMENTAL MASTER INDENTURES

The Series 2005 Notes are issued under the Master Indenture, as supplemented by the Series 2005 Supplemental Master Indentures. Under the Series 2005 Supplemental Master Indentures, the Series 2005 Notes will be subject to prepayment prior to maturity to the extent that the Bonds are subject to redemption prior to maturity. Pursuant to the Series 2005 Supplemental Master Indentures, the Borrower and each Obligated Issuer agree to become jointly and severally obligated with the members of the Obligated Group, if any, for the payment of all Notes issued under the Master Indenture and to guarantee that Notes will be paid in accordance with their respective terms when due.

The Bank Notes are issued pursuant to the Master Indenture in order to evidence the Borrower's obligation to reimburse the applicable Letter of Credit Bank under the Credit Documents.

LOAN AGREEMENT

Under the Loan Agreement, the Authority will loan to the Borrower the proceeds of the Bonds for the purpose of (i) constructing, acquiring, renovating or equipping certain health facility property, (ii) paying for interest during construction, (iii) paying for credit enhancement on the Bonds and (iv) financing certain costs of issuance in connection therewith. As evidence of its obligation to repay such loan, together with interest and premium, if any, thereon, the Borrower will issue and deliver to the Authority the Series 2005 Notes. The Series 2005 Notes will be issued in an amount equal to the aggregate principal amount of the Bonds, will be payable in installments at the same times as the maturities and mandatory redemption terms of the Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same redemption premiums, if any, as are applicable to the Bonds, and will bear interest on unpaid installments of principal equal to the interest rates per annum on the Bonds (subject to certain credits).

The Series 2005 Notes will be registered in the name of the Bond Trustee, and the Bond Trustee for the Bonds will use the payments made on such Series 2005 Notes to pay the debt service on the Bonds. Except as provided in the Loan Agreement and the Bond Indenture, the loan to be made under the Loan Agreement is to be evidenced solely by the Series 2005 Notes and the obligation to make loan repayments does not exist separate or independent of the Series 2005 Notes.

In addition, the Loan Agreement contains covenants of the Borrower relating to its tax-exempt status, to indemnification of the Authority and the Bond Trustee, and to the application of the proceeds of the sale of the Bonds.

BOND INDENTURE

The following summarizes certain provisions of the Bond Indenture between the Authority and the Bond Trustee.

Pledge and Assignment

Under the Bond Indenture, the Authority pledges to the Bond Trustee all of its right, title and interest in and to the Loan Agreement, subject to its right to indemnification and payment of administrative expenses; and the Authority further pledges to the Bond Trustee all funds and accounts established under the Bond Indenture (other than the Purchase Fund and the Rebate Fund), the Series 2005 Notes (which the Authority has assigned to the Bond Trustee), the Series 2005 Supplemental Indentures and in all security therefor pursuant to the Master Indenture to secure the payment of the Bonds and the performance and observance of the Authority's covenants under the Bond Indenture.

Disposition of Proceeds

Upon the issuance and delivery of the Bonds, a portion of the proceeds will be deposited into the Project Fund held by the Bond Trustee. From the Project Fund, the Bond Trustee will pay a portion of the costs of issuance of the Bonds, to refinance certain outstanding indebtedness and to fund a portion of the costs of the Project.

Revenue Fund

The Bond Trustee will establish a Revenue Fund, with a separate account for each Series of Bonds, into which it will deposit all amounts payable pursuant to the Loan Agreement (or any payments which are received from the Master Trustee in respect of Series 2005 Notes and credited against such Loan Agreement payments), and any other amounts required or permitted to be deposited therein pursuant to the provisions of the Bond Indenture. Moneys so deposited into the Revenue Fund and all other funds established under the Bond Indenture will be applied as specified in the Bond Indenture.

Prior to and including the Mode Adjustment Date on which the Bonds are converted to the Fixed Mode, if a Credit Facility is in effect, all payments of principal and interest on the Bonds will be made from Eligible Moneys. The Bond Trustee will draw amounts under such Credit Facility, if then in effect, at such times and pursuant to draw requests submitted at such times so as to assure that Eligible Moneys will be available to make when due all payments of principal of, redemption price and interest on (including the interest component of the Purchase Price of) the Bonds on and prior to the Conversion Date. With respect to the payment of regularly scheduled interest or the interest component of Purchase Price on the Bonds, while such payment is secured by a Liquidity Facility or Credit Facility that fails to cover the interest portion of the Purchase Price in the amount otherwise required by the Bond Indenture, the Bond Trustee will draw amounts under such Credit Facility on the first Business Day of each month in an amount equal to interest accrued on the Bonds during the preceding month for deposit to the appropriate account of the Bond Fund pending application to pay such interest.

Bond Fund

The paying agent will establish and maintain a Bond Fund, the moneys on deposit within which will be applied as follows:

- (i) to the payment of interest, when due, on all Outstanding Bonds, including any accrued interest due in connection with purchases or redemptions of Bonds pursuant to the terms of the Bond Indenture; and
- (ii) to the payment, when due, of the principal of Bonds then payable at Maturity (but only upon surrender of such Bonds), subject to reduction by the principal amount of Bonds of the same maturity purchased by the Borrower and surrendered to the Bond Registrar for cancellation or purchased for cancellation by the Bond Trustee pursuant to the Bond Indenture.

Credit Facility Interest Account. The Paying Agent will establish and maintain a separate and segregated account in the Bond Fund, hereinafter called the "LOC Interest Account," with a separate subaccount for each Series of Bonds.

All proceeds of interest drawings under the applicable Credit Facility received in connection with the payment of interest on or the acceleration of the Bonds prior to maturity will be deposited in the appropriate subaccount of the LOC Interest Account.

If such Credit Facility is then in effect, with respect to any Series of Bonds, any funds remaining on deposit in the Bond Fund (exclusive of the LOC Interest Account) on any date on which a demand is made on such Credit Facility after payment (or deposit in the LOC Interest Account of an amount sufficient to pay) in full all interest accrued on the Bonds on such date will be transferred by the Paying Agent, upon receipt of written instructions from such Credit Enhancer, for receipt by such Credit Enhancer in immediately available funds on such date in the amount necessary to reimburse such Credit Enhancer for the interest portion of the draw on such Credit Facility on such date.

Credit Facility Principal Account. The Paying Agent will establish and maintain a separate and segregated account within the Bond Fund, hereinafter called the “LOC Principal Account,” with a separate subaccount for each Series of Bonds. All proceeds of drafts drawn under the applicable Credit Facility to pay the principal of the Bonds at maturity or upon acceleration (hereinafter sometimes referred to as a “Principal Payment Date”) will be deposited in the appropriate subaccount of the LOC Principal Account.

If a Credit Facility is in effect and there are any funds remaining in the Bond Fund on each Principal Payment Date after payment (or deposit in the LOC Principal Account of an amount sufficient to pay) in full all interest and principal due on the Bonds on such date, there will be transferred by the Paying Agent, upon receipt of written instructions from such Credit Enhancer, for receipt in immediately available funds on such Principal Payment Date, an amount not to exceed the amount necessary to reimburse such Credit Enhancer for the principal portion of the draw on such Credit Facility on such date.

Redemption Fund

The Paying Agent will establish a Redemption Fund into which it will deposit such amounts as are required or permitted to be deposited therein pursuant to the provisions of the Bond Indenture. Moneys in the Redemption Fund will be applied to the optional, mandatory or extraordinary redemption of the Bonds pursuant to the Bond Indenture.

The Paying Agent will also establish a separate account within the Redemption Fund, hereinafter called the “LOC Redemption Account,” with a separate subaccount for each Series of Bonds.

For so long as a Credit Facility is in effect, all proceeds of such Credit Facility drawn to make timely redemption payments other than upon maturity or acceleration will be deposited in the LOC Redemption Account and payments of the redemption price of Bonds (including premium, to the extent permitted by such Credit Facility then in effect) will be made, to the extent available, from Eligible Moneys on deposit in the appropriate subaccount of the LOC Redemption Account.

In the event of (i) prepayment by or on behalf of the Borrower of amounts payable on Series 2005 Notes, (ii) receipt by the Bond Trustee of condemnation proceeds or insurance proceeds for purposes of redeeming Bonds or (iii) deposit with the Paying Agent by the Borrower or the Authority of moneys from any other source for redeeming Bonds, all such funds except as otherwise provided in the Bond Indenture will be deposited in the Redemption Fund. Moneys on deposit in the Redemption Fund (other than the LOC Redemption Account) will be used first to make up any deficiencies existing in the Bond Fund and second for the purchase or redemption of Bonds in accordance with the Bond Indenture.

For so long as a Credit Facility is in effect with respect to any Series of Bonds, on any date on which such Bonds are redeemed from amounts on deposit in the LOC Redemption Account of the Redemption Fund after payment (or deposit in the LOC Redemption Account of an amount sufficient to pay) in full the redemption price of all Bonds redeemed on such date, any funds remaining on deposit in the Redemption Fund (exclusive of the LOC Redemption Account) will be transferred by the Paying Agent, upon receipt of written instructions from such Credit Enhancer, to such Credit Enhancer, for receipt in immediately available funds on such date, in the amount necessary to reimburse such Credit Enhancer for the draw made on such Credit Facility on such date to pay such redemption price.

Application of Moneys to Pay Bonds; Draws Under Credit Facility

The foregoing paragraphs notwithstanding, at all times while a Credit Facility is in effect with respect to a Series of Bonds that permits claims or draws for the payment of scheduled interest and principal, the Paying Agent will pay when due the principal of and interest on (except as otherwise provided by the Bond Indenture) such Bonds whether at maturity, upon an Interest Payment Date, upon redemption or otherwise from the following sources, in the order listed:

- (i) Moneys drawn under such Credit Facility if such Credit Facility is then in effect;
- (ii) Eligible Moneys on deposit in the applicable LOC Account of the Bond Fund and the Redemption Fund;
- (iii) Any other Eligible Moneys; and
- (iv) Other moneys paid to the Paying Agent by the Borrower.

Notwithstanding the foregoing, the Bond Trustee will not draw moneys under the applicable Credit Facility to pay principal or interest on Bank Bonds.

The Paying Agent will maintain a record of the total amount from time to time on deposit in all accounts of each of the Funds which constitute deposits therein from moneys of the Borrower and the date of each such deposit, such amount being hereinafter sometimes referred to as the "Corporate Deposit" in the respective Funds. On the Conversion Date the separate accounts in the respective Funds and the Purchase Fund, other than those in the Rebate Fund, will be terminated and all moneys on deposit in such accounts will be held by the Paying Agent in the respective Funds without segregation or separate identification except for the record required to be maintained by the Paying Agent of the amount of the Corporate Deposit.

The Bond Trustee will draw or claim moneys under the applicable Credit Facility at all times when in effect in accordance with the terms thereof and the amounts available thereunder to make timely payments of: (i) principal of the Bonds by causing immediately available funds to be provided to the Paying Agent for deposit in the LOC Principal Account in the Bond Fund the moneys required by the Bond Indenture; (ii) interest on the Bonds by causing immediately available funds to be provided to the Paying Agent for deposit in the LOC Interest Account in the Bond Fund the moneys required by the Bond Indenture; and (iii) the redemption price of Bonds to be redeemed by causing immediately available funds to be provided to the Paying Agent for deposit in the LOC Redemption Account in the Redemption Fund the moneys required by the Bond Indenture.

In no event will any moneys other than Eligible Moneys be used if such Credit Facility is in effect to pay the principal of or interest on the Bonds and if Eligible Moneys are available for such payment or can be drawn under the applicable Credit Facility and applied to make such payment.

Project Fund

The Bond Trustee will establish a separate fund known as the "Project Fund." Separate subaccounts will be established and designated as the "Expense Account," the "Project Account" and the "Refunding Account."

Moneys held in the Project Fund (except for moneys held in the Refunding Account which shall be immediately transferred as provided in the Bond Indenture) will be disbursed by the Bond Trustee upon receipt by the Bond Trustee of a Written Request of the Borrower, as follows:

- (i) a Written Request of the Borrower with respect to a withdrawal from the Project Account must state (i) a description of the portion of the Project for which reimbursement or payment is sought including the cost of such portion of the Project, (ii) that such costs have been incurred by the Borrower and have been paid by the Borrower, (iii) that such costs are valid costs under the Act and that no part thereof was included in any prior financing under the Act or any prior Written Request under the Bond Indenture, (iv) that all necessary permits and approvals presently required for that portion of the Project for which such withdrawal is being made have

been issued and are in full force and effect, and (v) that such withdrawal is being made to reimburse the Borrower or pay a third party for the payment of the cost of the Project; and

- (ii) the Written Request of the Borrower for a withdrawal from the Expense Account must describe the nature of the fee or expense relating to the issuance of the Bonds and the amount of payment for which reimbursement is being sought and state that such costs have been incurred by the Borrower and have been paid or are to be paid by the Borrower.

At such time as the Bond Trustee is furnished with a Written Request of the Borrower, the Bond Trustee will transfer any moneys remaining in the Expense Account to the Project Account. Upon completion of the Project, the Borrower will present a Written Request of the Borrower directing the Bond Trustee to transfer any moneys remaining in the Project Account on such date to the Bond Fund.

Purchase Fund

There will be maintained with the Tender Agent on behalf of the Bond Trustee a separate fund, hereinafter called the "Purchase Fund," with a separate account for each Series of Bonds. Upon receipt of payment representing the Purchase Price from the sources described in the Bond Indenture, the Bond Trustee will deposit such money in the Purchase Fund for application to the applicable account of such Purchase Price of the Bonds or reimbursement of such Bank, as applicable.

Rebate Fund

There will be created and established with the Bond Trustee under the Bond Indenture an additional trust fund designated as the "Rebate Fund." Pursuant to the Rebate Memorandum, the Borrower is required to make certain computations and make certain payments to the United States of America in order to comply with its obligations under Section 148(f) of the Code. The Borrower is required to provide copies of such computations and evidence of such payment to the Bond Trustee on or before the respective payment dates specified in the Rebate Memorandum. If the Bond Trustee does not receive copies of such computations and evidence of such payment on or prior to the respective payment date set forth in the Rebate Memorandum, the Bond Trustee will request copies of such computations and evidence of payment immediately. Records of the computations and payments required under the Rebate Memorandum must be retained by the Bond Trustee until six (6) years after the Bonds are no longer outstanding.

If the Borrower elects to make a deposit to the Rebate Fund, the Bond Trustee will accept such amounts from time to time and invest those amounts in accordance with the instructions of the Borrower. Upon written instructions from the Borrower, the Bond Trustee will disburse funds from the Rebate Fund to make payments required under the Rebate Memorandum or transfer excess funds to the Borrower.

Events of Default

Each of the following is an Event of Default under the Bond Indenture:

- (i) if payment of any installment of interest on any Bond is not made when it becomes due and payable; or
- (ii) if payment of the principal, redemption price or Purchase Price of any Bond is not made when it becomes due and payable at maturity or upon call for redemption or tender or otherwise; or
- (iii) if there is a default under the Loan Agreement and such default gives the Authority the right to terminate the Loan Agreement; or
- (iv) if the Authority fails to comply with any provision of the Act or for any reason is rendered incapable of fulfilling its obligations thereunder or under the Bond Indenture; or
- (v) if the Authority defaults in the due and punctual performance of any other covenant in the Bonds or in the Bond Indenture and such default continues for 30 days after written notice requiring the same to be remedied

has been given to the Authority and the Borrower by the Bond Trustee, which may give such notice in its discretion and must give such notice at the written request of the holders of not less than 25% in principal amount of Bonds then outstanding; provided, however, that if such performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30 day period, no Event of Default will be deemed to have occurred or exist if and so long as the Authority or the Borrower commences such performance within such 30 day period and diligently and continuously prosecutes the same to completion; or

- (vi) if there is an Event of Default under the provisions of the Master Indenture; or
- (vii) if there is an Event of Default under any Credit Documents or any Bank Agreements and a demand by either Credit Enhancer or either Bank for acceleration; or
- (viii) receipt by the Bond Trustee of a notice of nonreinstatement under either Liquidity Facility or Credit Facility.

The Bond Trustee will give Immediate Notice to the Authority, each Credit Enhancer, each Bank, the Paying Agent, the Tender Agent, the Bond Registrar and the Borrower of the occurrence of any Event of Default of which it has notice or knowledge as soon as practicable. In addition, the Bond Trustee will notify the Master Trustee of such occurrence if it constitutes an “Event of Default” under the Master Indenture or, upon the giving of notice and with the passage of time thereafter, it will constitute an “Event of Default” under the Master Indenture. However, no such notice will be given to the Master Trustee unless directed by any Credit Enhancer or the holders of at least 25% in aggregate principal amount of all outstanding Bonds.

Remedies, Acceleration and Annulment

Subject to the rights of the applicable Credit Enhancer as set forth hereinafter, upon the occurrence of any event of default, the Bond Trustee may pursue any available remedy including a suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding and may request payment under the applicable Credit Facility if then in effect.

Upon the occurrence of any Event of Default under (i), (ii), (vii) or (viii) above, the Bond Trustee will, by Immediate Notice to the Bondholders, declare the principal of all Bonds then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon, will become due and payable immediately at the place of payment provided therein.

Subject to the rights of the applicable Credit Enhancer as set forth below, if any Event of Default has occurred and is continuing, the Bond Trustee may, and at written direction of the holders of 25% in principal amount of the Bonds then Outstanding, with the prior written consent of Credit Enhancer, if any for such Bonds (provided that such Credit Enhancer has not failed to honor a properly presented and conforming drawing under such Credit Facility, if any), must, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon, will become due and payable immediately at the place of payment provided therein. However, no such declaration will be made if the Borrower cures such Event of Default prior to the date of the declaration.

If after the principal of the Bonds has been so declared to be due and payable, all arrears of interest upon the Bonds (and interest on overdue installments of interest at the maximum rate permitted by law) are paid by the Authority, and the Authority also performs all other things in respect to which it may have been in default under the Bond Indenture and pays the reasonable charges of the Bond Trustee and the Bondholders, including reasonable attorney’s fees, and, prior to the Conversion Date for Bonds of such Series, such Credit Facility and Liquidity Facility, if any, are reinstated in full, then, and in every such case except that in which a declaration of acceleration of Series 2005 Notes has not been annulled pursuant to the terms of the Master Indenture, the Bond Trustee may annul such declaration and its consequences and such annulment will be binding upon the Bond Trustee and upon all holders of Bonds; but no such annulment will extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Notice of any acceleration of the Bonds pursuant to the provisions in the Bond Indenture shall also be given by the Bond Trustee to the Rating Service.

Notwithstanding any other provision in the Bond Indenture, if a Credit Facility is in effect with respect to the Bonds, the Bond Trustee will draw under such Credit Facility on the same day as such acceleration occurs in an amount equal to the amount available under such Credit Facility required in order to provide for the payment in full of the principal and interest on the Bonds of such Series due or to become due by reason of such acceleration (excluding Bonds owned by the Borrower or any other member of the Obligated Group) and will immediately take such actions and give such notice as may be required to pay or redeem the outstanding Bonds entitled to the benefits of such Credit Facility. Upon such payment in full of the drawing under such Credit Facility, the Bond Trustee will, notwithstanding any other provisions of the Bond Indenture, (i) transfer or cause the paying agent to transfer all excess moneys in any and all funds and accounts thereunder (except the Rebate Fund) to such Credit Enhancer and (ii) exercise such remedies and take such actions, only in accordance with the written directions of such Credit Enhancer. Only if such draw is not paid in full in accordance with the terms of such Credit Facility may the Bond Trustee proceed to exercise any other or further remedies provided in the Bond Indenture or otherwise.

Entry by Bond Trustee

Subject to the rights of the applicable Credit Enhancer as set forth below, if any Event of Default has occurred and is continuing, the Bond Trustee before or after declaring the principal of the Bonds immediately due and payable, (a) may enforce each and every right granted to the Authority under the Loan Agreement, and (b) insofar as such right may be lawfully conferred upon the Bond Trustee, may, by its agents or attorneys, with or without process of law, enter upon and take and maintain possession of all or any part of the Operating Assets, together with all records, documents, books, papers and accounts of the Authority relating thereto, and may, as the attorney in fact or agent of the Authority, being thereunto duly authorized or in its own name as Bond Trustee, hold, manage, and operate such Operating Assets and collect the amounts payable by reason of such operation. After paying the expenses of operation and maintenance, including such repairs, replacements, alterations, additions and improvements as it deems proper, the Bond Trustee will apply the balance of the revenues as provided hereinafter.

Legal Proceedings by Bond Trustee

Subject to the rights of the applicable Credit Enhancer as set forth below, if any Event of Default has occurred and is continuing, the Bond Trustee in its discretion may, and upon the written request of the holders of 25% in principal amount of the Bonds then outstanding and receipt of indemnity to its satisfaction must, in its own name:

- (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Authority to charge and collect rates, rentals and other charges adequate to carry out the terms of the Bond Indenture and to require the Authority to carry out any other agreements with, or for the benefit of, the Bondholders and to perform its duties under the Act;
- (ii) bring suit upon the Bonds and/or Series 2005 Notes;
- (iii) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Bondholders;
- (iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders; and
- (v) exercise any right or remedy provided at law or in equity.

Bondholders May Direct Proceedings

Subject to the rights of the applicable Credit Enhancer as set forth hereinafter, the holders of a majority in principal amount of the Bonds then outstanding will have the right to direct the method and place of conducting all remedial proceedings by the Bond Trustee, provided such directions will not be otherwise than in accordance with law or the

provisions of the Bond Indenture, and that the Bond Trustee will have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction. However, if such Credit Enhancer for any Series of Bonds, if any, has not failed to honor a properly presented and conforming drawing under such Credit Facility, (i) no such direction from holders of Bonds of such Series will be followed by the Bond Trustee without the prior written consent of such Credit Enhancer, and (ii) such Credit Enhancer may direct proceedings without any action by the owners of any Bonds of such Series.

Limitations on Actions by Bondholders

Subject to the rights of the applicable Credit Enhancer as set forth hereinafter, no Bondholder will have any right to pursue any remedy under the Bond Indenture unless (a) the Bond Trustee has been given written notice of any Event of Default, (b) the holders of at least 25% in principal amount of the Bonds then outstanding have requested the Bond Trustee, in writing, to exercise the powers granted under the Bond Indenture or to pursue such remedy in its or their name or names, (c) the Bond Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities, and (d) the Bond Trustee has failed to comply with such request within a reasonable time.

Application of Moneys in Event of Default

Subject to the provisions of the Bond Indenture and provided that amounts drawn under a Liquidity Facility or a Credit Facility, if any, and any Eligible Moneys available therefor will be applied solely to pay the principal of and interest on the applicable Series of Bonds (or only Purchase Price in case of the Liquidity Facility) and will not be applied to pay any costs or expenses of collection or expenses, liabilities or advances of the Bond Trustee, or to restore any deficiency in the Rebate Fund, all moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of the Bond Indenture will, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Bond Trustee, be deposited in the Revenue Fund or in the case of proceeds of a Credit Facility, the applicable LOC Principal Account and the applicable LOC Interest Account of the Bond Fund, and together with all moneys in the Funds maintained by the Bond Trustee under the Bond Indenture, will be applied as follows:

- (i) Unless the principal of all the Bonds has become or has been declared due and payable, all such moneys will be applied:

First: To eliminate any deficiency in the Rebate Fund; and

Second: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of maturity of the installments of such interest, and, if the amount available is not sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Third: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which have become due (other than the Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, and, if the amount available is not sufficient to pay in full the Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or privilege;

- (ii) If the principal of all the Bonds has become due or has been declared due and payable, all such moneys will be applied to eliminate any deficiency in the Rebate Fund and then to the payment of the principal and interest then due and unpaid upon the Bonds (except for any Bank Bonds), without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or privilege; then to the payment of all obligations owed to a Credit Enhancer for such Series of Bonds, if any; then, moneys may be applied to the payment of Bank Bonds, but only after payment in full of all other outstanding Bonds and of all obligations owed to a Credit Enhancer for such Series of Bonds, if any; and

- (iii) If the principal of all the Bonds has been declared due and payable, and if such declaration has thereafter been rescinded and annulled under the provisions of the Bond Indenture, then, subject to the provisions outlined in paragraph (b) below, in the event that the principal of all the Bonds later becomes due or is declared due and payable, the moneys will be applied in accordance with the provisions described above.

Whenever moneys are to be applied by the Bond Trustee as set forth in paragraph (a) above, such moneys will be applied by it at such times, and from time to time, as the Bond Trustee determines, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee applies such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Bond Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date in accordance with the provisions of the Bond Indenture 10 days prior to the Special Record Date. The Paying Agent will not be required to make payment to the holder of any unpaid Bond until such Bond is presented to the paying agent for appropriate endorsement or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions described above and all expenses and charges of the Bond Trustee, the Paying Agent, the Tender Agent and the Bond Registrar have been paid, any balance remaining will be paid to the applicable Bank to pay any Bank Note, and to the applicable Credit Enhancer to pay any Credit Obligation, with any remaining balance, thereafter, to the Borrower.

Rights of Credit Enhancer Controlling

Anything herein to the contrary notwithstanding, if the applicable Credit Facility is in effect for a particular Series of Bonds and such Credit Enhancer is not in default of its obligations to make payment thereunder, such Credit Enhancer will be deemed to be the owner of all Bonds outstanding, with the exclusive right to exercise or direct the exercise of remedies on behalf of the owners of the Bonds of such Series in accordance with the Bond Indenture following an Event of Default, and the principal of all Bonds Outstanding may not be declared to be due and payable immediately without the prior written consent of such Credit Enhancer; provided, following an Event of Default described in the Bond Indenture, such written consent of such Credit Enhancer will not be required prior to acceleration.

The Bond Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Bond Trustee and the Bondholders allowed in any judicial proceedings relative to the Borrower, any Credit Enhancer or any Bank, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the holders in any election of a trustee in bankruptcy or other person performing similar functions.

Prior to the expiration or termination of an existing Credit Facility, if any, for any Series of Bonds, and as long as such Credit Enhancer has not failed to honor a properly presented and conforming drawing under such Credit Facility, such Credit Enhancer is entitled, but not obligated, to direct the Bond Trustee in the exercise of all rights and remedies under the Bond Indenture with respect to such Series of Bonds, including, but without limitation, acceleration of the Bonds, institution of legal proceedings and the granting of any waivers with respect to the foregoing. Until such time as such Credit Enhancer has failed to honor a properly presented and conforming drawing under such Credit Facility, if any, neither the Bond Trustee, the Authority nor the Bondholders of such Series will have the right or be permitted to exercise any of the rights or remedies granted or permitted to any one or more of them under the Bond Indenture, without the express written consent of such Credit Enhancer.

Amendments and Supplements

Without the consent of the holders of any Bonds, but with consent of each Bank and/or each Credit Enhancer, if either or both are then providing a Liquidity Facility or Credit Facility with respect to the Bonds and are then not in default under its Credit Facility or Liquidity Facility by a Supplemental Indenture authorized by a Certified Resolution of the Authority filed with the Bond Trustee, the Authority and the Bond Trustee may enter into one or more supplemental bond indentures for the following purposes, among others:

- (i) to add to the covenants of the Authority or to surrender any right or power conferred upon the Authority in the Bond Indenture; or
- (ii) to cure any ambiguity, to correct or supplement any provision in the Bond Indenture which may be inconsistent with any other provision of the Bond Indenture, or to make any other provisions with respect to matters or questions arising under the Bond Indenture which are not inconsistent with the provisions of the Bond Indenture, provided such action will not adversely affect the interests of the holders of the Bonds then outstanding; or
- (iii) to add, delete or revise provisions required in connection with the issuance of an alternate Credit Facility or an alternate Liquidity Facility with respect to a Series of Bonds; or
- (iv) to obtain, maintain or upgrade a rating on the Bonds; and
- (v) to permit the use of a book entry system of bonds in lieu of certificates.

The Bond Indenture may be amended from time to time, if the amendment is approved by each Bank and/or each Credit Enhancer (if either or both are then providing a Liquidity Facility or Credit Facility with respect to the Bonds and are then not in default under its Bank Agreements or Credit Documents) and approved by the holders of at least 51% in aggregate principal amount of the Bonds then Outstanding. However, no amendment may be made which affects the rights of some but less than all the Outstanding Bonds without the consent of the holders of 51 % of the Bonds so affected. Further, no amendment which alters the interest rates on any Bonds, the maturities, interest payment dates or redemption provisions of any Bonds, the provisions of the Bond Indenture concerning amendments thereof, or the security provisions under the Bond Indenture may be made without the consent of the holders of all Outstanding Bonds adversely affected thereby.

The Authority and the Bond Trustee will, without the consent or notice to the Bondholders, but upon prior written consent of each Bank and/or each Credit Enhancer (if either or both are then providing a Liquidity Facility or Credit Facility with respect to the Bonds and are then not in default under its Bank Agreements or Credit Documents) amend, change or modify the Loan Agreement as may be required or otherwise permitted (i) by the provisions of the Loan Agreement or the Bond Indenture, (ii) for the purpose of curing any ambiguity, defect, inconsistent provision or omission in the Loan Agreement or (iii) in connection with any other change therein which, in the judgment of the Bond Trustee, is not to the prejudice of the holders of the Bonds.

In addition, the Authority and the Bond Trustee may amend, change or modify the Loan Agreement with the written approval or consent of the holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding and upon prior written consent of each Bank and/or each Credit Enhancer (if either or both are then providing a Liquidity Facility or Credit Facility with respect to the Bonds and are then not in default under its Bank Agreements or Credit Documents).

So long as a Credit Facility is in full force and effect for a particular Series and such Credit Enhancer has not failed to honor any draws or is not in default of its payment obligations thereunder, such Credit Enhancer will be deemed to be the holder of the Series of Bonds with respect to which such Credit Facility has been provided for purposes of obtaining consent of the holders of the Bonds as described above.

Under the Master Indenture, for certain purposes the holder of each Bond is considered a holder of a corresponding amount of the Series 2005 Notes and may consent to amendments to the Master Indenture or to the Supplemental Master Indentures, as described under the caption “MASTER INDENTURE—Modifications.”

Defeasance

When interest on, and principal or redemption price (as the case may be) of all Bonds have been paid and all Bank Notes and Credit Obligations have been paid, or there has been deposited with the Bond Trustee an amount, evidenced by moneys or non-callable Government Obligations, the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, as well as all other sums payable under the Bond Indenture by the Borrower to each Bank and each Credit Enhancer, the right, title and interest of the Bond Trustee will thereupon cease and the Bond Trustee, on demand of the Authority, will release the Bond Indenture and will execute such documents to evidence such release as may be reasonably required by the Authority and will turn over to the Authority or to such person, body or authority as may be entitled to receive the same all balances remaining in any funds under the Bond Indenture. At all times while a Credit Facility secures the Bonds of any Series, all moneys used to defease the Bonds of such Series and all moneys used to purchase Government Obligations employed for such purpose will constitute Eligible Moneys.

Substitution of Notes

Upon the satisfaction of certain conditions contained in the Master Indenture, the Master Trustee will deliver to the Bond Trustee Substitute Notes (as defined in the Master Indenture) to replace the Related Notes. In such event, the Bond Trustee will surrender the Series 2005 Notes to the Master Trustee in accordance with the Master Indenture. Upon satisfaction of such conditions, all references in the Bond Indenture and in the Loan Agreement to the Series 2005 Notes will be deemed to be references to the Substitute Notes, all references to the Master Indenture will be deemed to be references to the Replacement Master Indenture (as defined in the Master Indenture), all references to the Master Trustee will be deemed to be references to the New Trustee (as defined in the Master Indenture), all references to the Obligated Group and the members will be deemed to be references to the New Group (as defined in the Master Indenture) and all references to the 2005 Supplemental Master Indentures will be deemed to be references to the supplemental indenture pursuant to which the respective Substitute Notes are issued.

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APPENDIX D

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Master Indenture, the Bond Indenture, the Loan Agreement and the Official Statement.

“Act” means Indiana Code 5-1-16 as heretofore and hereafter amended or supplemented.

“Additional Indebtedness” shall mean any Indebtedness (including Notes) incurred subsequent to August 31, 2005.

“Adjusted Interest Rate” means each Daily Rate, Weekly Rate, Flexible Rate, Semiannual Rate and Long Rate.

“Authority” means the Indiana Health and Educational Facility Financing Authority, and any successor to its functions under the Bond Indenture.

“Balloon Indebtedness” shall mean Indebtedness, 25% or more of the original principal of which matures during any consecutive 12 month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such 12 month period. The foregoing notwithstanding, Balloon Indebtedness does not include (i) Indebtedness which otherwise would be classified under the Master Indenture as Short-Term Indebtedness, Interim Indebtedness or Put Indebtedness or (ii) Indebtedness which is amortized on a substantially level debt service basis.

“Bank” or “Letter of Credit Bank” means the provider of any Liquidity Facility issued to provide the Purchase Price of the Bonds tendered for purchase pursuant to the Bond Indenture, and will initially be the Series 2005A Bank for the Series 2005A Bonds and the Series 2005B Bank for the Series 2005B Bonds.

“Bank Agreement” means any agreement between the Borrower and a Bank, as such agreement may from time to time be amended or supplemented, pursuant to which a Liquidity Facility is issued and outstanding.

“Bank Bonds” means any Bond registered in the name of a Bank or in the name of the Borrower and pledged to a Bank pursuant to a purchase thereof in accordance with the Bond Indenture.

“Bank Notes” means, initially, the Borrower’s Series 2005A-2 Note and Series 2005B-2 Note and any other obligations of the Borrower to a Bank for any amounts payable to such Bank pursuant to the terms of a Liquidity Facility and any Bank Agreements.

“Beneficial Owner” means the person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such person’s subrogee, so long as the System is in effect with respect to the Bonds.

“Bond” or “Bonds” means one or more of the Series 2005A Bonds and the Series 2005B Bonds.

“Bond Fund” shall mean the Bond Fund created in the Bond Indenture.

“Bondholder,” “holder” or “owner of the Bonds” means the person in whose name a Bond is registered on the Bond Register.

“Bond Indenture” means the Indenture of Trust and Pledge, dated as of August 1, 2005, between the Authority and the Bond Trustee, as such may be amended or supplemented from time to time in accordance with the provisions thereof.

“Bond Register” means the registration books of the Authority kept by the Bond Registrar to evidence the registration and transfer of Bonds.

“Bond Registrar” means the bank designated in accordance with the Bond Indenture, as keeper of the Bond Register. The initial Bond Registrar is J.P. Morgan Trust Company, National Association.

“Bond Trustee” means J.P. Morgan Trust Company, National Association, or any permitted successor as trustee under the Bond Indenture.

“Book Value” shall mean (i) when used in connection with Property of any Obligated Issuer, the value of such Property as it is carried on the books of account of such Person and in conformity with generally accepted accounting principles and (ii) when used in connection with Property of the Obligated Group, the aggregate of the values so determined with respect to the Property of each member of the Obligated Group.

“Borrower” shall mean The Board of Trustees of Howard Community Hospital, a body corporate and politic duly organized and validly existing under the laws of the State including particularly I.C. 16-22, and any permitted successor to such board under the Master Indenture.

“Business Day” means a day which is not (a) a Saturday or Sunday, (b) a day on which banking institutions in Indianapolis, Indiana, or New York, New York, or in any other city where the principal corporate trust operations office of the Bond Trustee, the Paying Agent or the Tender Agent or the principal office of a Bank or a Credit Enhancer is located are required or authorized by law (including executive order) to be closed or on which the principal corporate trust operations office of the Bond Trustee, the Paying Agent or the Tender Agent or the principal office of a Bank or a Credit Enhancer is closed for a reason not related to financial condition, (c) a day on which The New York Stock Exchange is closed or the payment system of the Federal Reserve System is not operational, or (d) a day on which a remarketing agent is closed.

“Certified Resolution” shall mean, as the context requires: (a) one or more resolutions of the Authority, certified by the Executive Director of the Authority, to have been duly adopted and to be in full force and effect as of the date of certification; or (b) one or more resolutions of the governing body of the Borrower or a duly authorized committee thereof, certified by the Secretary or Assistant Secretary of the Borrower or other officer serving in a similar capacity, under its corporate seal, to have been duly adopted and to be in full force and effect as of the date of certification.

“Code” shall mean the Internal Revenue Code of 1986, as amended, together with the regulations thereunder.

“Comerica” means Comerica Bank, a Michigan banking corporation and its successors and assigns.

“Comerica Obligation” means the Series 2005A-2 Note of the Obligated Group to Comerica, and any and all obligations of the Borrower to Comerica pursuant to the Series 2005A Reimbursement Agreement.

“Commitment Indebtedness” means the obligation of any Obligated Issuer to repay amounts disbursed pursuant to a commitment from a financial institution to refinance or purchase when due, when tendered or when required to be purchased (a) other Indebtedness of such Obligated Issuer, or (b) Indebtedness of a Person who is not an Obligated Issuer, which Indebtedness is guaranteed by a Guaranty of such Obligated Issuer or secured by or payable from amounts paid on Indebtedness of such Obligated Issuer, in either case which Indebtedness or Guaranty of such Obligated Issuer was incurred in accordance with the provisions of the Master Indenture, and the obligation of any Obligated Issuer to pay interest payable on amounts disbursed for such purposes, plus any fees, costs or expenses payable to such financial institution for, under or in connection with such commitment, in the event of disbursement pursuant to such commitment or in connection with enforcement thereof, including without limitation any penalties payable in the event of such enforcement

“Completion Indebtedness” shall mean any Long-Term Additional Indebtedness incurred by the Borrower or any other Obligated Issuer for the purpose of financing (i) the improvement, replacement, renovation or substitutions for, or additions to, facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, necessitated by faulty design, damage to or destruction of such facilities or (ii) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been issued or incurred.

“Conversion Date” means the Mode Adjustment Date on which a Series of the Bonds are converted to the Fixed Mode.

“Credit Documents” means the underlying documents, if any, between the Obligated Group and the issuer of a Credit Facility, relating to the issuance of such Credit Facility.

“Credit Enhancer” means the issuer of any Credit Facility pursuant to the Bond Indenture, and will initially be the Series 2005A Bank, with respect to the Series 2005A Bonds, and the Series 2005B Bank, with respect to the Series 2005B Bonds.

“Credit Facility” means any letter of credit, bond insurance policy, bond purchase agreement or similar credit facility provided pursuant to the Bond Indenture supporting payment of principal of and interest on any Series of the Bonds. Each Series of Bonds may have a separate Credit Facility in effect from time to time. Initially, a Credit Facility will be issued by the Series 2005A Bank, with respect to the Series 2005A Bonds and by the Series 2005B Bank, with respect to the Series 2005B Bonds.

“Credit Obligation” means initially the Comerica Obligation and the National City Obligation collectively, and any other obligations of the Borrower to a Credit Enhancer for any amounts payable to such Credit Enhancer pursuant to the terms of a Credit Facility and any Credit Documents.

“Daily Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a Series of Bonds accrues at a Daily Rate.

“Daily Rate” means the rate of interest applicable to a Series of Bonds bearing interest in the Daily Mode which is determined in accordance with the provisions of the Bond Indenture.

“Debt Service Coverage Ratio” shall mean the ratio for the fiscal year in question of Net Income Available for Debt Service to the aggregate maximum annual scheduled debt service (taking into consideration the mandatory sinking fund redemption payments or deposits but excluding any requirement to pay principal or interest on any obligation to the extent that irrevocable deposits sufficient to pay such principal or interest have been made) of the Borrower and each other Obligated Issuer on Long-Term Indebtedness for any succeeding fiscal year, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles, with the elimination of material inter-company balances and transactions; provided, however, that for purposes of calculating such ratio:

- (i) guaranties by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group and obligations owed by one member of the Obligated Group to any other member of the Obligated Group shall be excluded;
- (ii) the interest on any Long-Term Indebtedness, with an interest rate which changes from time to time during the term thereof and which cannot at the date of such calculation be determined for the period under consideration, shall be calculated as if the interest rate on such Long-Term Indebtedness were the Projected Rate;
- (iii) the principal and interest due on Balloon Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” in Appendix C;
- (iv) the principal and interest due on Interim Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” in Appendix C; and
- (v) the principal and interest due on Put Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Permitted Additional Indebtedness” in Appendix C.

“Delivery Office” means the office of the Bond Registrar or Tender Agent specified by it from time to time.

“Eligible Moneys” means (a) proceeds of the Bonds, (b) moneys drawn under any Liquidity Facility or Credit Facility which are either applied directly to the payment or purchase of principal of and interest on the Bonds or which, if not so applied, are held in a separate and segregated subaccount under the Bond Indenture until so applied, (c) moneys which have been on deposit with the Bond Trustee or Paying Agent as agent and bailee for the Bondholders for a continuous period of 123 consecutive days during which no voluntary or involuntary petition under the United States Bankruptcy Code 11 U.S.C. § 101 et. seq. (as it may be amended from time to time) and no proceeding under any other applicable laws concerning insolvency, reorganization or bankruptcy has been commenced by or against the Authority or any members of the Obligated Group, unless such petition or proceeding has been dismissed and such dismissal is final and not subject to appeal, (d) proceeds of obligations issued to refund the Bonds, (e) proceeds from the sale, to a person other than any member of the Obligated Group or the Authority upon the remarketing of the Bonds, (f) any other moneys, which, in the opinion of nationally recognized counsel experienced in bankruptcy matters, approved by the Authority and the Borrower, the application of which will not constitute a voidable preference in the event of a bankruptcy of the Authority or any Obligated Issuer, and (g) investment income derived from the investment of the foregoing types of moneys; provided that such proceeds, moneys or income will not be deemed to be Eligible Moneys or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, moneys or income from being applied to make such payment.

“Excluded Property” shall mean that Property of any Obligated Issuer as set forth in Exhibit B to the Master Indenture.

“Federal Securities” shall mean:

- (i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America (the “United States Obligations”); or
- (ii) any certificates or other evidences of ownership interest in obligations of the character described in (i) or in specified portions thereof issued by a member firm of the National Association of Securities Dealers or by a commercial bank having a combined capital and surplus of not less than \$100,000,000, including, without limitation, portions consisting solely of the principal thereof or solely of the interest thereon, provided (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; or
- (iii) obligations of any state of the United States or any political subdivision thereof (the “Municipal Obligations”), the full payment of principal of, premium, if any, and interest on which are provided for by an Irrevocable Deposit of United States Obligations provided (a) such investment is permitted by applicable law, (b) such United States Obligations are held by an escrow agent or trustee, (c) such United States Obligations are not available to satisfy any other claim including those of the trustee or escrow agent, (d) the Municipal Obligations are not redeemable prior to maturity thereof or the trustee for such Municipal Obligations has been given irrevocable instructions concerning the calling and redemption and has irrevocably waived the right to redeem such obligations at any other time, (e) the principal of and interest on the United States Obligations (together with any cash in the escrow) are sufficient to meet the liabilities of the Municipal Obligations; and (f) such Municipal Obligations are rated in the highest rating categories by a Rating Agency.

“Fiscal Year” means a period of 12 consecutive months constituting the fiscal year of the Borrower commencing on the first day of January of any year and ending on the last day of the following December, both inclusive, or such other period as may be established from time to time for budgeting and accounting purposes of the Borrower by its Governing Body.

“Fixed Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a Series of the Bonds accrues at a Fixed Rate.

“Fixed Rate” means the fixed rate of interest established in the manner and upon the conditions set forth in the Bond Indenture and described herein under the caption “THE BONDS—Payment of Principal and Interest-Fixed Rate.”

“Flexible Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a Series of the Bonds accrues at a Flexible Rate.

“Flexible Rate” means the rate of interest established in the manner and upon the conditions set forth in the Bond Indenture and described herein under the caption “THE BONDS—Payment of Principal and Interest-Flexible Mode.”

“Governing Body” shall mean (i) (A) the board of directors or the board of trustees of any Obligated Issuer, if applicable, or (B) if there shall be no board of directors or board of trustees, such person or body which pursuant to law or the organizational documents of any Obligated Issuer, if applicable, is vested with powers similar to those vested in a board of directors or a board of trustees and (ii) any committee empowered to act on behalf of such board or body.

“Government Obligations” means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, U.S. Treasury STRIPS, REFCORP STRIPS (stripped by the Federal Reserve Bank of New York) and any stripped securities assessed or rated “AAA” by Standard & Poor’s Credit Market Securities at the time of purchase.

“Governmental Issuer” shall mean any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or any agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof.

“Gross Revenues” shall mean all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between each Obligated Issuer and the State or any state with respect to Medicaid; each Obligated Issuer and third-party insurers of any patients of each Obligated Issuer; and each Obligated Issuer and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by each Obligated Issuer, and all proceeds therefrom, whether cash or noncash, and which are derived by each Obligated Issuer from the conduct of all or any part of their respective operations; and all revenue and income of each Obligated Issuer from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by each Obligated Issuer from any source, but excluding only Restricted Moneys of the Obligated Issuers.

“Guaranty” shall mean, when used in connection with a particular Person, all obligations of such Person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including, but not limited to, obligations incurred through an agreement, contingent or otherwise, by such Person:

- (i) to purchase such indebtedness or obligation or any Property or assets constituting security therefor;
- (ii) to advance or supply funds:
 - (A) for the purchase or payment of such indebtedness or obligation, or
 - (B) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;
- (iii) any income of physicians (or entities controlled by such physicians) who are at the date of, or will become pursuant to the contract creating such obligation, members of the medical staff of such Obligated Issuer and any obligation of any Obligated Issuer to guaranty the income of other professionals or managers which obligations the Obligated Issuer considers necessary or appropriate in recruiting and retaining its professional

and managerial staff; provided, however, that guaranties of indebtedness (which for purposes of this definition do not include guaranties of income) shall be excluded under this clause (iii) to the extent that the aggregate amount thereof does not exceed 2% of the Net Patient Service Revenues of the Obligated Group in the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

- (iv) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or
- (v) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof;

provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (w) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (x) the discount or sale with recourse of any such Person's notes receivable or accounts receivable, (y) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, and (z) payments required to be deposited into any reserve funds pursuant to the provisions of any Related Bond Indenture.

"Immediate Notice" means notice by telephone, telex or telecopier to such address as the addressee has directed in writing, promptly followed by written notice by first class mail postage prepaid.

"Indebtedness" shall mean any indebtedness of a Person for the repayment of borrowed money, any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee, installment purchase contracts and guarantees of indebtedness, which are shown as a liability on the balance sheet of such Person or which are properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness evidenced by Notes issued under the Master Indenture and indebtedness not evidenced by Notes under the Master Indenture).

"Independent Accountants" shall mean either the State Board of Accounts or a firm of independent certified public accountants selected by any Obligated Issuer which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of any Obligated Issuer, or a Subsidiary of either, or an employee, director or elected official of any Related Issuer.

"Independent Consultant" shall mean a firm (i) which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of any Obligated Issuer, or a Subsidiary of either, or an employee, director or elected official of any Related Issuer and (ii) which shall be appointed by any Obligated Issuer, and shall be qualified to pass upon questions relating to the financial affairs of organizations engaged in like operations to those of members of the Obligated Group and which shall have a favorable national reputation for skill and experience in the financial affairs of such facilities.

"Independent Insurance Consultant" shall mean a firm (i) which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of any Obligated Issuer, or a Subsidiary of either, or an employee, director or elected official of any Related Issuer and (ii) which shall be appointed by any Obligated Issuer, shall be qualified to survey risks and to recommend insurance coverage for the type or types of activities conducted and facilities operated by the members of the Obligated Group, and which may be a broker or agent with whom any Obligated Issuer, or any Subsidiary of either, transacts business so long as the other qualifications set forth in this definition are satisfied.

"Indirect Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

"Insurance Subsidiary" shall mean any Subsidiary which is in the business of providing insurance coverage to any Obligated Issuer or any Subsidiary.

“Interest Mode” means any Daily Mode, Weekly Mode, Flexible Mode, Semiannual Mode, Long Mode or Fixed Mode.

“Interest Payment Date” means, with respect to the Bonds of any Series, (i) with respect to any Bonds in the Daily Mode or Weekly Mode, the first Business Day of each calendar month during which the Daily Mode or the Weekly Mode for such Bonds is in effect (other than the first of such calendar months) and the first day of the first Rate Period for such Bonds after such Interest Mode is no longer in effect; (ii) with respect to any Bonds in the Flexible Mode, the first Business Day of the next Rate Period for such Bonds; (iii), with respect to any Bonds in the Semiannual Mode, the Long Mode or the Fixed Mode, semiannually on each January 1 and July 1 or the next succeeding Business Day thereafter if any such January 1 or July 1 is not a Business Day; and (iv) a Conversion Date for the Bonds of such Series.

“Interest Rate Agreement” means an interest rate exchange, hedge or similar agreement, entered into by an Obligated Issuer, which agreement may include, without limitation, an interest rate swap, a basis swap, an index swap or option, a forward or futures contract or an option (*e.g.*, a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. An Interest Rate Agreement shall not constitute Indebtedness under the Master Indenture.

“Interim Indebtedness” shall mean Indebtedness incurred in anticipation of additional Long-Term Indebtedness, provided that at the time such Interim Indebtedness is incurred or renewed (i) the anticipated refinancing thereof by the issuance of Long-Term Indebtedness is reasonably expected to be completed within the following 48 months and (ii) the Obligated Group Representative certifies that all requirements for the incurring of Long-Term Indebtedness would be satisfied if such Indebtedness were being incurred with substantially equal annual payments to be paid for principal and interest over a term of 25 years or the weighted average useful life of the facilities being financed with an interest rate equal to the Projected Rate.

“Investment Securities” means:

(a) Government Obligations;

(b) obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that (i) cash, Governmental Obligations or a combination thereof have been irrevocably pledged to and deposited into a segregated escrow account for the payment when due of the principal or redemption price of and interest on such obligations, and (ii) any cash pledged and deposited as aforesaid is in such amount and any Government Obligations so pledged and deposited are payable as to principal and interest in such amounts and on such dates as may be necessary, without reinvestment, to provide for the payment when due of the principal or redemption price of and interest on such obligations;

(c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereafter created: Resolution Trust Corporation; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;

(d) negotiable and non-negotiable certificates of deposit which are issued by the Master Trustee, the Bond Trustee, banks, or trust companies; and which meet the further requirements set forth in the Bond Indenture;

(e) repurchase agreements for Government Obligations which (i) are entered into with the Master Trustee, the Bond Trustee, banks, trust companies or dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank, and (ii) meet the further requirements set forth in the Bond Indenture;

(f) investment agreements issued by the Master Trustee, the Bond Trustee, banks, trust companies, insurance companies, members of the National Association of Securities Dealers, Inc., or other corporations which meet the further requirements set forth in the Bond Indenture;

(g) shares of certificates in any short term investment fund, including one which is maintained by the Master Trustee and the Bond Trustee, which invests solely in obligations described in subparagraph (a) above, and which fund is rated at the time of purchase in the highest rating category by a Rating Service, which would be regarded by prudent businesspersons as a safe investment (the fact that the Bond Trustee, or any affiliate of Bond Trustee is providing services to and receiving remuneration from the foregoing investment company or trust as investment advisor, custodian, transfer agent, registrar, or otherwise will not preclude the Bond Trustee from investing in the securities of such investment company or investment trust);

(h) investments in a money market fund rated at the time of purchase “AAAm” or “AAAm-G” or better by Standard & Poor’s Credit Market Services;

(i) commercial paper rated at the time of purchase in the highest rating category by a Rating Service;

(j) obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that such obligations are rated at the time of purchase by a Rating Service in one of the three highest rating categories assigned by such Rating Service to obligations of the same type; and

(k) shares of a regulated investment company if during any quarter of its taxable year such company (a) is a regulated investment company (as defined in Section 851 (a) of the Code) which, for the taxable year, meets the requirements of Section 852(a) of the Code, (b) has authorized and outstanding only one class of stock, and (c) to the extent practicable, invests all of its assets in tax exempt securities which are presently rated in the three highest rating categories by a Rating Service, if at least 98% of its gross income is derived from interest on or gains from the sale or other disposition of such tax-exempt bonds or if at least 98% of the weighted average value of its assets is represented by investments in such tax-exempt bonds.

“Irrevocable Deposit” shall mean the irrevocable deposit in trust of cash in an amount (and/or Federal Securities the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of and interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

“Letter of Credit Banks” means, collectively, the Series 2005A Bank and the Series 2005B Bank.

“Letters of Credit” means, collectively, the Series 2005A Letter of Credit and the Series 2005B Letter of Credit.

“Liquidity Facility” means any standby purchase agreement, any letter of credit, bond purchase agreement or other similar agreement provided pursuant to the Bond Indenture and providing for the provision of sufficient moneys to pay the Purchase Price of any Series of Bonds on any tender date, issued by a Bank for the benefit of the Bond Trustee pursuant to the Bank Agreements. Each Series of Bonds may have separate Liquidity Facilities in effect from time to time. Initially, a Liquidity Facility will be issued by the Series 2005A Bank with respect to the Series 2005A Bonds, and the Series 2005B Bank with respect to the Series 2005B Bonds.

“Loan Agreement” means the Loan Agreement dated as of August 1, 2005, between the Authority and the Borrower, as the same may be from time to time amended or supplemented.

“Long Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a Series of the Bonds accrues at a Long Rate.

“Long Rate” means the rate of interest established in the manner and upon the conditions set forth in the Bond Indenture and described herein under the caption “THE BONDS—Interest—Long Mode.”

“Long-Term” shall mean (i) when used in connection with Indebtedness (other than Guaranties), Indebtedness having an original maturity greater than one year or renewable at the option of any Obligated Issuer for a period greater than one year from the date of original issuance thereof, but shall not mean Short-Term Indebtedness or Interim Indebtedness, and (ii) when used in connection with Indebtedness represented by any Guaranty (other than any Guaranty

by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), any such Indebtedness; provided, however, that, so long as any such Guaranty shall constitute a contingent liability under generally accepted accounting principles, for the purposes of any covenants in the Master Indenture or any computation provided for therein, the aggregate annual principal and interest payments on any Long-Term Indebtedness represented by such Guaranty shall be deemed to be equal to 20% of the principal and interest which would be payable annually if Long-Term Indebtedness other than a Guaranty were issued on the date any Obligated Issuer enters into, or becomes liable in respect of, such Guaranty in an amount equal to the maximum amount of the Indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty which Long-Term Indebtedness would mature over a term of 30 years in approximately equal annual payments of principal and interest and would have an interest rate equal to the weighted-average annual interest rate (whether actual, imputed or implicit) payable on the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty; provided, further, if any principal or interest payment is made by the guarantor in connection with such Guaranty within a two year period, then the aggregate annual principal and interest payments on Long-Term Indebtedness represented by such Guaranty shall be treated as Long-Term Indebtedness payable by the Obligated Group for purposes of any covenants in the Master Indenture or any computation provided for therein.

“Mandatory Tender Date” means any of the dates for mandatory tender described herein under the caption “THE BONDS—Purchase—Mandatory Tender.”

“Market Rate” means the rate estimated or determined on any Rate Determination Date pursuant to the Bond Indenture and described herein under the caption “THE BONDS—Payment of Principal and Interest—Market Rate Determination.”

“Master Indenture” means the Master Trust Indenture, dated as of August 1, 2005, among the members of the Obligated Group, from time to time, and the Master Trustee, as supplemented and amended at the time in question.

“Master Trustee” means J.P. Morgan Trust Company, National Association, or any successor Master Trustee appointed pursuant to the provisions of the Master Indenture.

“Maturity” when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable as provided therein and in the Bond Indenture, whether at the Stated Maturity or by acceleration or redemption or otherwise, but does not include payment of the portion of the Purchase Price corresponding to principal of such Bond pursuant to the Bond Indenture.

“Mode Adjustment Date” means the Closing Date and each date thereafter on which the Interest Mode is to be converted or on which a Long Mode with a Rate Period of a different duration is to become effective, pursuant to the Bond Indenture.

“Mortgage” shall mean any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property other than the mortgages, security interests, liens, charges and encumbrances either (i) listed in Exhibit A to the Master Indenture, (ii) created and given by an Obligated Issuer to another Obligated Issuer, (iii) granted in favor of the Master Trustee to secure solely the performance of all obligations under the Master Indenture, or (iv) on a parity with or subordinate to a lien granted to the Master Trustee to secure the performance of obligations under the Master Indenture.

“Mortgage Indebtedness” shall mean Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) secured by a Mortgage other than a Mortgage securing Project Indebtedness.

“Mortgaged Property” shall mean Property that is subject to a Mortgage other than a Mortgage securing Project Indebtedness.

“National City” means National City Bank of Indiana, a national banking association, and its successors and assigns.

“National City Obligation” means the Series 2005B-2 Note of the Obligated Group to National City, and any and all obligations of the Borrower to National City pursuant to the Series 2005B Reimbursement Agreement.

“Net Income Available for Debt Service” shall mean, as to any period of time, (a) Total Revenues of the Obligated Group minus (b) Total Expenses of the Obligated Group other than depreciation, amortization and interest, plus (c) any other interest costs (not otherwise characterized as interest expense in clause (b) above) incorporated in the cost of an asset acquired or financed with proceeds derived from a borrowing, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles, with the elimination of material inter-company balances and transactions; provided, however, that no determination thereof shall take into account (i) any gain or loss resulting from the extinguishment of Indebtedness, (ii) any gain or loss resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iii) any gain or loss resulting from any discontinued operations, (iv) any gain or loss resulting from pension terminations, settlements or curtailments, (v) any unusual charges for employee severance, (vi) other extraordinary items as defined by generally accepted accounting principles, (vii) any unrealized change in value or termination payment under an Interest Rate Agreement, (viii) any unrealized gain or loss from investments, and (ix) any income or loss resulting from the reappraisal, revaluation or write-up of assets, the release of reserves, net assets released from restrictions that do not have an offsetting operating expense, any reported net income derived from an allocation of an ownership in an entity that does not result in the receipt of income by an Obligated Issuer.

“Net Patient Service Revenues” means gross patient service revenues less contractual allowances, free care and discounted care.

“Net Proceeds,” when used with respect to any insurance or condemnation award, means the gross proceeds from the insurance or condemnation award with respect to which that term is used remaining after payment of all expenses (including attorney’s fees, adjuster’s fees and any expenses of the Bond Trustee or the Master Trustee) incurred in the collection of such gross proceeds.

“Note” or “Notes” shall mean any Note issued, authenticated and delivered under the Master Indenture. References to Notes of a series shall mean the Notes or series issued pursuant to a Supplemental Master Indenture.

“Notice Office” means such office of the Tender Agent specified by it from time to time.

“Obligated Group” shall mean the Borrower and each other Obligated Issuer, if any.

“Obligated Group Representative” shall mean the Chairman or Vice Chairman of the Borrower or the President or Vice President of the hospital which it operates or any other duly authorized officer of the Borrower or hospital which has been empowered to act in such capacity by action of the Governing Body of the Borrower.

“Obligated Issuer” shall mean (i) the Borrower or (ii) any other Person which has become an Obligated Issuer under the Master Indenture, in accordance with the provisions of the Master Indenture.

“Officer’s Certificate” means a certificate signed by the Chairman or a Vice Chairman, or a President, or a Vice President or any other duly authorized officer of one or members of the Obligated Group, and attested by either the Treasurer, an Assistant Treasurer, Secretary or an Assistant Secretary or any other duly authorized officer of one or more members of the Obligated Group or, in case of any Obligated Issuer which is not a corporation, by the managing partner or other person in which the power to act on behalf of such Obligated Issuer is vested by law, the organizational documents of such Obligated Issuer or by subsequent action of its Governing Body.

“Operating Assets” shall mean any or all land, leasehold interests, buildings, machinery, furniture, fixtures, equipment, hardware, supplies and inventory of, or to be acquired by, the Borrower, and each other Obligated Issuer, whether separately or together with other such assets, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material intercompany balances and transactions.

“Opinion of Bond Counsel” shall mean an opinion in writing signed by legal counsel which shall be nationally recognized as an expert in matters pertaining to the validity of obligations of Governmental Issuers and the exclusion from gross income for federal income tax purposes of interest on such obligations.

“Opinion of Counsel” shall mean an opinion in writing signed by legal counsel who may be an employee of or counsel to any Obligated Issuer.

“Optional Tender Date” means (i) with respect to any Bonds in the Semiannual Mode or Long Mode, the first day of the next Rate Period, and (ii) with respect to a Bond in the Daily Mode or Weekly Mode, each Business Day during such Daily Mode or Weekly Mode.

“Outstanding” under the Master Indenture shall mean, when used in connection with Indebtedness as of any time, Indebtedness issued or incurred and not paid or for which payment has not been provided by deposit of money or securities with the Master Trustee and shall not include Notes surrendered for exchange pursuant to the Master Indenture or Notes for which replacement Notes have been issued pursuant to the Master Indenture, or which the Master Indenture otherwise provides shall be deemed not to be outstanding.

“Outstanding” under the Bond Indenture means, with respect to the Bonds, all Bonds authenticated and delivered under the Bond Indenture as of the time in question, except:

(a) All Bonds theretofore canceled or required to be canceled under the Bond Indenture;

(b) Bonds for the payment or redemption of which provision has been made in accordance with the Bond Indenture provided that, if such Bonds are being redeemed, the required notice of redemption has been given or provision satisfactory to the Bond Trustee has been made therefor, and that if such Bonds are being purchased, there is a firm commitment for the purchase and sale thereof; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Bond Indenture.

Tendered Bonds purchased by the Borrower or any member of the Obligated Group will continue to be Outstanding until the Borrower (with the consent of the respective Bank if the Bonds have been purchased with moneys drawn under the Liquidity Facility) directs the Bond Registrar to cancel them.

“Participant” means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository.

“Paying Agent” means the bank or banks, if any, designated in accordance with the Bond Indenture to receive and disburse the principal of and interest on the Bonds. The initial Paying Agent is J.P. Morgan Trust Company, National Association.

“Permitted Encumbrances” shall mean those encumbrances enumerated under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Restrictions on Mortgages” in Appendix C.

“Person” shall mean any individual, corporation, partnership, association, joint stock company, joint venture, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Project” means certain health facility property described in Exhibit B of the Bond Indenture.

“Project Fund” shall mean the Project Fund created in the Bond Indenture.

“Project Indebtedness” shall mean any Indebtedness secured by a Mortgage, liability for which is effectively limited to the Property, Plant and Equipment subject to such Mortgage and to revenues from such Property, Plant and Equipment with no recourse, directly or indirectly, to any other Property of any Obligated Issuer but with recourse, directly or indirectly, only to the Property, Plant and Equipment secured by such Mortgage and the revenues therefrom.

“Projected Rate” shall mean either (i) the average interest rate paid on the Outstanding Indebtedness for the preceding 12-month period; (ii) the rate equal to the 30-year Revenue Bond Index as of the date of issuance of the

Additional Indebtedness; or (iii) the actual interest rate then in effect on the date of issuance of the Additional Indebtedness, as selected by the Obligated Group Representative.

“Property” shall mean, when used in connection with a particular Person, any and all rights, title and interests of such Person in and to any and all property, whether real or personal, tangible or intangible (including Gross Revenues), and wherever situated.

“Property, Plant and Equipment” means all Property of each Obligated Issuer which is classified as property, plant and equipment under generally accepted accounting principles.

“Purchase Date,” when used with respect to any Bond, means the date upon which the Tender Agent is obligated to effect the purchase of such Bond on the terms described in the Bond Indenture.

“Purchase Fund” shall mean the Purchase Fund created in the Bond Indenture.

“Purchase Price” of any Bond required to be purchased pursuant to the terms of the Bond Indenture means an amount equal to 100% of the principal amount of such Bond plus interest, if any, accrued thereon from the most recent Interest Payment Date to but not including the Purchase Date, for such Bonds.

“Put Indebtedness” shall mean Indebtedness which is payable or required to be purchased or redeemed, at the option of holder thereof, prior to its stated maturity or which secures Related Bonds which are so payable or required to be purchased or redeemed, but not including Indebtedness subject to mandatory tender other than by reason of acceleration or required purchase upon default.

“Rate Adjustment Date” means the first day on which an Adjusted Interest Rate or the Fixed Rate for the Bonds of any Series becomes effective, which will be the first day of any Rate Period for the Bonds of such Series.

“Rate Determination Date” means each date on which the Rate-Setting Agent is required to make an estimated or final determination of the Adjusted Interest Rate or the Fixed Rate pursuant to the Bond Indenture.

“Rate Period” means that period in which a given interest rate applies and which means (i) with respect to Bonds bearing interest at an Adjusted Interest Rate, the period of time from the date of issuance or any Rate Adjustment Date for the Bonds of such Series to but excluding the next succeeding Rate Adjustment Date for the Bonds of such Series; or (ii) with respect to Bonds bearing interest at a Fixed Rate, the period of time commencing on the Conversion Date to the last Maturity of the Bonds.

“Rate-Setting Agent” means the person or persons appointed as Rate-Setting Agent for one or more Series of Bonds in accordance with the Bond Indenture. The initial Rate-Setting Agent for the Series 2005A Bonds and for the Series 2005B Bonds is Piper Jaffray & Co. and its assigns.

“Rating Agency” under the Master Indenture shall mean Moody’s Investors Service, Fitch Ratings or Standard & Poor’s Credit Market Services, their respective successors and assigns or upon discontinuance of any or all of such services, such other nationally recognized rating service as shall be determined by the Trustee.

“Rating Service” under the Bond Indenture means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds of either Series at the request of the Borrower, which will initially be Standard & Poor’s Credit Market Services.

“Rebate Fund” shall mean the Rebate Fund created in the Bond Indenture.

“Redemption Fund” shall mean the Redemption Fund created in the Bond Indenture.

“Refunding Indebtedness” shall mean any Long-Term Additional Indebtedness issued for the purpose of refunding any principal and/or interest of any Outstanding Long-Term Indebtedness.

“Registered Owner” shall mean the Person or Persons in whose name or names a particular registered Note shall be registered on the register maintained for that purpose pursuant to the Master Indenture.

“Regular Record Date” means (i) for Bonds in the Daily Mode and the Weekly Mode, the Business Day immediately preceding an Interest Payment Date for such Bonds; (ii) for Bonds in the Flexible Mode, the last Business Day of the Rate Period for such Bonds; and (iii) for Bonds in the Semiannual Mode, the Long Mode and the Fixed Mode, the fifteenth day of the month immediately preceding each Interest Payment Date for such Bonds.

“Reimbursement Agreement” means, collectively, the Series 2005A Reimbursement Agreement and the Series 2005B Reimbursement Agreement.

“Related Bond Indenture” shall mean any indenture pursuant to which a series of Related Bonds is issued or any supplement to a Related Bond Indenture pursuant to which a series of Related Bonds is issued.

“Related Bond Trustee” shall mean the trustee and its successors in the trusts created under any Related Bond Indenture.

“Related Bonds” shall mean obligations issued by any Governmental Issuer, the proceeds of which are loaned or otherwise made available to or for the benefit of (i) the Borrower or any other Obligated Issuer in consideration of the execution, authentication and delivery of a Note or Notes to such Governmental Issuer or Related Bond Trustee or (ii) any Person other than the Borrower or any other Obligated Issuer in consideration of issuance to such Governmental Issuer or trustee for such obligations (A) by such Person of any Indebtedness or other obligation of such Person and (B) by the Borrower or any other Obligated Issuer of a Guaranty issued under the Master Indenture in respect of such Indebtedness or other obligation.

“Related Issuer” shall mean the Governmental Issuer of any issue of Related Bonds.

“Remarketing Agent” means the placement or remarketing agent or agents designated as the Remarketing Agent for one or more Series of Bonds under the Bond Indenture. The initial Remarketing Agent for the Series 2005A Bonds and for the Series 2005B Bonds is Piper Jaffray & Co. and its assigns.

“Remarketing Agreement” means, collectively, the Remarketing Agreement dated as of August 1, 2005 between the Borrower and the Remarketing Agent, as amended, or replaced upon the replacement of the Remarketing Agent.

“Restricted Moneys” shall mean the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to a special object or purpose which precludes the use by an Obligated Issuer thereof for debt service or for financing the costs, or for paying the operating, maintenance and repair expenses, of facilities operated by an Obligated Issuer holding or entitled to such proceeds.

“Revenue Fund” shall mean the Revenue Fund created in the Bond Indenture.

“Secured Indebtedness” shall mean any Indebtedness secured by a Mortgage.

“Securities Depository” means The Depository Trust Company and any substitute for or successor to such securities depository pursuant to the terms of the Bond Indenture that maintains a System with respect to the Bonds.

“Semiannual Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a Series of the Bonds accrues at a Semiannual Rate.

“Semiannual Rate” means the rate of interest established in the manner and upon the conditions set forth in the Bond Indenture as described herein under the caption “THE BONDS—Payment of Principal and Interest-Semiannual Mode.”

“Series” means either Series of Bonds issued hereunder.

“Series 2005 Bank Supplemental Master Indentures” means the Series 2005A-2 Supplemental Master Indenture and the Series 2005B-2 Supplemental Master Indenture.

“Series 2005 Notes” shall mean the Series 2005A-1 Note and the Series 2005B-1 Note.

“Series 2005 Supplemental Master Indentures” shall mean the Series 2005A-1 Supplemental Master Indenture and the Series 2005B-1 Supplemental Master Indenture.

“Series 2005A Bank” means Comerica.

“Series 2005A Bonds” shall mean the Authority’s \$30,000,000 in aggregate principal amount of Adjustable Rate Hospital Revenue Bonds, Series 2005A (Howard Regional Health System Project) issued under the Bond Indenture

“Series 2005A Letter of Credit” means the irrevocable direct pay letter of credit issued by the Series 2005A Bank.

“Series 2005A Reimbursement Agreement” means the Reimbursement and Pledge Agreement dated as of August 1, 2005, between the Borrower and the Series 2005A Bank.

“Series 2005A-1 Note” means the Series 2005A-1 Note issued under the Series 2005A-1 Supplemental Master Indenture.

“Series 2005A-1 Supplemental Master Indenture” shall mean the Series 2005A-1 Supplemental Master Indenture, dated as of August 1, 2005, between the Borrower and the Master Trustee, under which the Series 2005A-1 Note is issued.

“Series 2005A-2 Note” means the Series 2005A-2 Note issued under the Master Indenture, as supplemented by a Series 2005A-2 Supplemental Master Indenture.

“Series 2005A-2 Supplemental Master Indenture” shall mean the Series 2005A-2 Supplemental Master Indenture, dated as of August 1, 2005, between the Borrower and the Master Trustee, under which the Series 2005A-2 Note is issued.

“Series 2005B Bank” means National City Bank of Indiana.

“Series 2005B Bonds” shall mean the Authority’s \$20,000,000 in aggregate principal amount of Adjustable Rate Hospital Revenue Bonds, Series 2005B (Howard Regional Health System Project) issued under the Bond Indenture.

“Series 2005B Letter of Credit” means the irrevocable direct pay letter of credit issued by the Series 2005B Bank.

“Series 2005B Reimbursement Agreement” means the Reimbursement and Pledge Agreement dated as of August 1, 2005 between the Borrower and the Series 2005B Bank.

“Series 2005B-1 Note” means the Series 2005B-1 Note issued under the Series 2005B Supplemental Master Indenture

“Series 2005B-1 Supplemental Master Indenture” shall mean the Series 2005B-1 Supplemental Master Indenture, dated as of August 1, 2005, between the Borrower and the Master Trustee, under which the Series 2005B-1 Note is issued.

“Series 2005B-2 Note” means the Series 2005B-2 Note issued under the Master Indenture, as supplemented by a Series 2005B-2 Supplemental Master Indenture.

“Series 2005B-2 Supplemental Master Indenture” shall mean the Series 2005B-2 Supplemental Master Indenture, dated as of August 1, 2005, between the Borrower and the Master Trustee, under which the Series 2005B-2 Note is issued.

“Short-Term” shall mean, when used in connection with Indebtedness other than Guaranties, Indebtedness having an original maturity less than or equal to one year and not renewable at the option of any Obligated Issuer for a term greater than one year beyond the date of original issuance.

“State” means the State of Indiana.

“Stated Maturity” when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond and as the date on which (unless pursuant to redemption or declaration of acceleration) such installment of interest is due and payable.

“Subordinated Indebtedness” shall mean Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness (to which appropriate reference shall be made in the instruments evidencing such Indebtedness) substantially as set forth in Exhibit C of the Master Indenture.

“Subsidiary” shall mean with respect to each Obligated Issuer, (a) a corporation, association, business trust, joint venture, partnership or similar entity organized under the laws of any state of which such Obligated Issuer possesses, directly or indirectly, in excess of 50% of the voting rights with respect thereto, provided that the ability to acquire additional voting rights shall not be counted until such rights are acquired, (b) a corporation, association, business trust, joint venture, partnership or similar entity organized on a nonprofit basis under the laws of any state, the articles of incorporation, code of regulations, by-laws, articles of association or similar organizational documents of which require or expressly permit such Obligated Issuer to exercise control thereof, whether through (i) appointment of officers or employees of such Obligated Issuer or any other Obligated Issuer to such organization’s Governing Body on an ex officio basis (with voting rights), (ii) appointment of members of such organization’s Governing Body by such Obligated Issuer or (iii) authority of such Obligated Issuer to remove members of such organization’s Governing Body or any other means or (c) any Subsidiary of any of the foregoing.

“Supplemental Master Indenture” shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating one or more series of Notes issued thereunder or amending or supplementing the terms thereof.

“System” means a book entry system established and operated for the recordation of Beneficial Owners of the Bonds pursuant to the Bond Indenture.

“Tax-Exempt Organization” shall mean (i) a not-for-profit corporation or other entity organized under the laws of any state which is an organization described in Section 501(c)(3) of the Code or any successor section of the Code or of a successor statute, or (ii) any state of the United States or a local governmental unit thereof within the meaning of Section 103 of the Code or any instrumentality thereof.

“Tender Agent” means the commercial bank or trust company designated to act as the tender agent in accordance with the Bond Indenture. The initial Tender Agent is J.P. Morgan Trust Company, National Association.

“Tendered Bonds” means any Bonds tendered for purchase or required to be tendered for purchase pursuant to the Bond Indenture.

“Total Expenses” shall mean total expenses of the Obligated Group, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material intercompany balances and transactions.

“Total Revenues” shall mean the sum of gross patient service revenues (less contractual allowances, free care and discounted care), other operating revenues and nonoperating gains of the Obligated Group, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied with the elimination of material inter-company balances and transactions.

“Trust Estate” means all right, title and interest of the Authority in and to the following:

- (a) the Loan Agreement, except for the payment for indemnification and administrative fees and expenses;
- (b) all funds and accounts established under the Bond Indenture (except the Purchase Fund and the Rebate Fund);
- (c) the Series 2005 Supplemental Master Indentures; and
- (d) the Series 2005 Notes and all security therefor pursuant to the Master Indenture.

“Unencumbered” shall mean not subject to a Mortgage.

“Unrestricted Net Assets” shall mean the amount shown as unrestricted net assets in the most recently available audited financial statements of the Obligated Group, and excluding unrealized gains and losses resulting from the periodic valuation of investments and Qualified Rate Agreements.

“Unsecured Indebtedness” shall mean any Indebtedness not secured by any Mortgage.

“Weekly Mode” means any period of time, determined in accordance with the Bond Indenture, during which interest on a series of the Bonds accrues at a Weekly Rate.

“Weekly Rate” means the rate of interest established in the manner and upon the conditions set forth in the Bond Indenture as described herein under the caption “THE BONDS—Interest—Weekly Mode.”

“Written Request” with reference to the Authority means a request in writing signed by the Chair or Vice Chair of the Authority, with reference to the Borrower means a request in writing signed by the President or a Vice President of the Borrower or any other officers designated by the Authority or the Borrower as the case may be.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Indiana Health and Educational Facility
Financing Authority
Indianapolis, Indiana

Piper Jaffray & Co.
Chicago, Illinois

J.P. Morgan Trust Company,
National Association, as Trustee
Indianapolis, Indiana

National City Bank of Indiana
Indianapolis, Indiana

The Board of Trustees of
Howard Community Hospital
Kokomo, Indiana

Comerica Bank
Oakbrook Terrace, Illinois

Re: Indiana Health and Educational Facility Financing Authority Adjustable Rate Hospital Revenue Bonds, Series 2005A (Howard Regional Health System Project) issued in the aggregate principal amount of \$30,000,000 and Series 2005B issued in the aggregate principal amount of \$20,000,000 (collectively, the “Bonds”), pursuant to an Indenture of Trust and Pledge dated as of August 1, 2005 (the “Bond Indenture”), between the Indiana Health and Educational Facility Financing Authority (the “Authority”) and J.P. Morgan Trust Company, National Association, as Trustee (the “Bond Trustee”), which Bond Indenture contains an assignment of certain of the Authority’s rights under the Loan Agreement, dated as of August 1, 2005 (the “Loan Agreement”), between the Authority and The Board of Trustees of Howard Community Hospital (the “Hospital”), and the Series 2005A-1 Note and the Series 2005B-1 Note of the Hospital (collectively, the “Notes”) issued pursuant to the Master Trust Indenture, dated as of August 1, 2005 (the “Master Indenture”), among the Hospital, future members of the Obligated Group from time to time (as defined in the Master Indenture) and J. P. Morgan Trust Company, National Association, as Trustee (the “Master Trustee”), as supplemented by a Series 2005A-1 Supplemental Master Indenture and a Series 2005B-1 Supplemental Master Indenture, each dated as of August 1, 2005 (collectively, the “Supplemental Indentures”).

Ladies and Gentlemen:

We have examined a certified transcript of proceedings relating to (a) the creation and organization of the Authority; (b) the authorization, issuance and sale of the Bonds; (c) the authorization and execution of the Bond Indenture, the Loan Agreement, the Master Indenture, the Supplemental Indentures and the Notes; (d) an opinion of the Attorney General of the State of Indiana, counsel for the Authority; (e) executed counterparts of the Loan Agreement, the Bond Indenture, the Master Indenture and the Supplemental Indentures; (f) a certificate of officers of the Authority, of even date herewith, regarding the execution of the Bonds and showing no litigation pending or threatened; (g) certificates of officers of the Bond Trustee regarding the execution of the Bond Indenture, authentication of the Bonds, the guarantee of the signatures on the Bonds and showing payment for and delivery of the Bonds; (h) the executed Notes; (i) certificates of the Hospital, of even date herewith; and (j) an Internal Revenue Service Form 8038-G.

We have also examined Indiana Code 5-1-16, as amended, and such other provisions of the constitution and laws of the State of Indiana (the “State”) as we have deemed relevant and necessary as a basis for the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations and covenants of the Hospital and the Authority contained in the Loan Agreement and the Bond Indenture and in the certified transcript of proceedings and other certificates of officers furnished to us, including the tax covenants and representations of the Authority and the Hospital (the “Tax Covenants”), without undertaking to verify the same by independent investigation.

Based on the foregoing and our review of such other information, papers and documents as we believe necessary or advisable, we are of the opinion that:

1. The Loan Agreement has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Hospital, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

2. The Bond Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

3. The Bonds have been duly authorized, executed and issued and are valid and binding limited obligations of the Authority enforceable in accordance with their terms.

4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

5. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Code for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Obligated Group and the Authority with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

The opinion expressed in paragraph 5 is expressly limited as set forth in this paragraph. If subsequent to the date hereof the interest mode (as set forth in the Bond Indenture) applicable to the Bonds is changed, we are not expressing an opinion herein on the effect such change shall have on the exclusion from gross income for federal income tax purposes of interest on the Bonds. As described in the Bond Indenture, a favorable opinion of bond counsel would be required in the event of any such change.

It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Hospital and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Hospital and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

APPENDIX F

CERTAIN INFORMATION CONCERNING COMERICA BANK

APPENDIX F

COMERICA BANK

The following information has been obtained from Comerica Bank. The Authority, the Underwriters and the Borrower make no representations as to the accuracy or completeness of such information.

General

The principal offices of Comerica Bank (the “**Series 2005A Bank**”) are located at Comerica Tower at Detroit Center, 500 Woodward Avenue, Detroit, Michigan 48226. Its telephone number is (313) 222-4000.

At June 30, 2005, the Series 2005A Bank had approximately 358 branch offices within the States of Michigan, California, Texas and Florida, total assets of approximately \$54.9 billion, total deposits of approximately \$44.6 billion, total loans (net of unearned portion) of approximately \$43.0 billion, and total equity capital of approximately \$5.6 billion, and for the six months ended June 30, 2005, net income of \$444.5 million. At June 30, 2005, the Series 2005A Bank was the largest commercial bank headquartered in Michigan. **THE SERIES 2005A LETTER OF CREDIT IS AN OBLIGATION OF THE SERIES 2005A BANK AND WILL NOT BE AN OBLIGATION OF COMERICA INCORPORATED (THE “CORPORATION”).**

Comerica Bank

The Series 2005A Bank was incorporated on July 21, 1871 and is a wholly-owned subsidiary of the Corporation, which is a bank holding company incorporated under the laws of the State of Delaware, headquartered in Detroit, Michigan and registered under the Bank Holding Company Act of 1956, as amended. As of June 30, 2005, the Corporation owned directly or indirectly all the outstanding stock of 3 banking and 50 non-banking subsidiaries. At June 30, 2005, the Corporation had total assets of approximately \$55.1 billion, total deposits of approximately \$44.3 billion, total loans (net of unearned portion) of approximately \$43.0 billion and common shareholders’ equity of approximately \$5.1 billion. At June 30, 2005, the Corporation was the largest bank holding corporation headquartered in Michigan in terms of both total assets and total deposits.

The Corporation has strategically aligned its operations into three major business segments: the Business Bank, Small Business & Personal Financial Services, and Wealth & Institutional Management. In addition to the three major business segments, the Finance Division is also reported as a segment. The Business Bank is primarily comprised of the following businesses: middle market, commercial real estate, national dealer services, global finance, large corporate, leasing, financial services group, and technology and life sciences. This business segment meets the needs of medium-size businesses, multinational corporations and governmental entities by offering various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, letters of credit, foreign exchange management services and loan syndication services. Small Business & Personal Financial Services includes small business banking (entities with annual sales under \$10 million) and personal financial services, consisting of consumer lending, consumer deposit gathering and mortgage loan origination. In addition to a full range of financial services provided to small business customers, this business segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, student loans, home equity lines of credit, and residential mortgage loans. Wealth & Institutional Management offers products and services consisting of personal trust, which is designed to meet the personal financial need of affluent individuals (as defined by individual net income or wealth), private lending, institutional trust, retirement services, and investment management and advisory services (including Munder Capital Management), investment banking and discount securities brokerage services). This business segment also offers the sale of mutual funds and annuity products, as well as life, disability, and long-term care products. The Finance segment includes the Corporation’s securities portfolio and asset and liability management activities. This segment is responsible for managing the Corporation’s funding, liquidity and capital needs, performing interest sensitivity gap and earnings simulation analysis and executing various strategies to manage the Corporation’s exposure to liquidity, interest rate risk, and foreign exchange risk.

Selected Financial Information

**COMERICA BANK
AS A PERCENTAGE OF
COMERICA INCORPORATED**

	June 30, 2005	December 31, 2004	December 31, 2003
Assets	99.5%	99.4%	99.5%
Deposits	100.7	100.8	98.5
Total loans	100.0	100.0	100.0
Net income	106.8	107.8	105.1

COMERICA BANK AND SUBSIDIARIES
CONSOLIDATED SUMMARY BALANCE SHEET INFORMATION
In thousands
(Unaudited)

	June 30,		December 31,	
	2005	2004	2004	2003
ASSETS				
Cash and due from depository institutions	\$ 1,758,637	\$ 1,978,831	\$ 1,277,460	\$ 1,658,089
Investment securities	3,917,709	4,297,795	3,903,346	4,457,270
Federal funds sold and securities purchased under agreements to resell	3,223,193	5,707,511	3,057,000	3,738,450
Loans held-for-sale	120,812	210,173	107,529	222,490
Loans, net of unearned income	43,021,999	40,097,437	40,841,079	40,299,729
Less: Allowance for loan losses	(608,688)	(761,788)	(672,918)	(803,029)
Net loans	42,413,311	39,335,649	40,168,161	39,496,700
Other assets	3,428,093	3,116,461	3,564,368	3,111,355
TOTAL ASSETS	\$ 54,861,755	\$ 54,646,420	\$ 52,077,864	\$ 52,684,354
LIABILITIES AND SHAREHOLDER'S EQUITY				
Deposits				
Domestic	\$ 42,849,588	\$ 43,131,350	\$ 40,509,957	\$ 40,481,520
Foreign office	1,744,085	1,291,760	1,282,514	1,578,347
Total deposits	44,593,673	44,423,110	41,792,471	42,059,867
Federal funds purchased and securities sold under agreements to repurchase	87,937	205,397	168,864	177,095
Other borrowed money	1,670,445	1,974,004	1,652,390	2,446,534
Subordinated notes	1,777,736	1,763,487	1,782,323	1,562,627
Other liabilities	1,109,497	821,669	1,121,097	861,479
Total liabilities	49,239,288	49,187,667	46,517,145	47,107,602
Perpetual preferred stock	320,000	320,000	320,000	320,000
Common stock	58,527	58,527	58,527	58,527
Capital surplus	1,576,040	1,567,551	1,567,886	1,567,162
Retained earnings	3,754,446	3,582,604	3,672,086	3,545,190
Accumulated other comprehensive income (loss)	(86,546)	(69,929)	(57,780)	85,873
Total shareholder's equity	5,622,467	5,458,753	5,560,719	5,576,752
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 54,861,755	\$ 54,646,420	\$ 52,077,864	\$ 52,684,354

COMERICA BANK AND SUBSIDIARIES
CONSOLIDATED SUMMARY OF EARNINGS
In thousands
(Unaudited)

	Six Months Ended June 30,		Years Ended December 31,	
	2005	2004	2004	2003
Interest income	\$ 1,252,247	\$ 1,078,605	\$ 2,218,093	\$ 2,397,749
Interest expense	297,967	175,445	387,260	444,380
Net interest income	954,280	903,160	1,830,833	1,953,369
Provision for loan losses	3,000	85,000	64,111	377,613
Net interest income after provision for loan losses	951,280	818,160	1,766,722	1,575,756
Noninterest income	470,889	471,714	916,178	960,489
Noninterest expenses	764,198	741,270	1,477,424	1,527,471
Income before income taxes	657,971	548,604	1,205,476	1,008,774
Provision for income taxes	213,451	174,030	389,260	314,270
NET INCOME	\$ 444,520	\$ 374,574	\$ 816,216	\$ 694,504

Additional Information

The Series 2005A Bank submits quarterly to the Federal Deposit Insurance Corporation (the “**FDIC**”), on behalf of the Board of Governors of the Federal Reserve System (the “**Federal Reserve Board**”), certain reports regarding its financial condition and results of operations (each, a “**Call Report**” and collectively, the “**Call Reports**”) entitled “Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices”. Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of the end of the period to which such Call Report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by the Call Reports, such regulatory instructions do not in all cases follow generally accepted accounting principles or the opinions and statements of the Accounting Principles Board of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about the Series 2005A Bank, the Call Reports, nevertheless, provide important information concerning the financial condition of the Series 2005A Bank. The publicly available portions of the Call Reports with respect to the Series 2005A Bank are on file with, and publicly available at, the FDIC, 250 E. Street, S.W., Washington, D.C. 20219. All such Call Reports may be obtained by calling the FDIC at (800) 945-2186. The FDIC also maintains a website (<http://www.fdic.gov>) that contains reports and certain other information regarding depository institutions, such as the Series 2005A Bank, which file reports with the FDIC.

The selected financial information of the Series 2005A Bank, set forth above should be read in connection with, and is qualified in its entirety by, the Call Reports.

The Corporation is subject to informational requirements of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and in accordance therewith, files reports and other information with the United States Securities and Exchange Commission (the “**SEC**”). All such reports and other information may be inspected and copied at the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such reports may be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates, and electronically from the website maintained by the SEC located at <http://www.sec.gov>. In addition, such material can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which exchange securities of the Corporation are listed. Such information may also be obtained from the Corporation’s website located at <http://www.comerica.com>.

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APPENDIX G

CERTAIN INFORMATION CONCERNING NATIONAL CITY BANK OF INDIANA

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APPENDIX G

NATIONAL CITY BANK OF INDIANA

The following information has been obtained from National City Bank. The Authority, the Underwriters and the Borrower make no representations as to the accuracy or completeness of such information.

National City Bank of Indiana (the “Bank”), is a national banking association organized under the laws of the United States. The Bank is engaged in general commercial banking and trust business.

All of the Bank’s capital stock is owned by National City Corporation, a bank holding company organized under the laws of Delaware. The Letter of Credit is an obligation of the Bank and not of National City Corporation.

Certain financial statements of the Bank are set forth on the following page. The Bank will provide without charge to each person to whom this Official Statement is delivered, upon written request of any such person, a copy of National City Corporation’s most recent Annual Report on Form 10-K, as well as any subsequent and available quarterly reports on Form 10-Q filed with the Securities and Exchange Commission. Written requests should be delivered to National City Corporation, National City Center, 1900 East Ninth Street, Cleveland, Ohio 44114, Attention: Treasurer.

REPORT OF CONDITION

NATIONAL CITY BANK of INDIANA

(Including Domestic and Foreign Subsidiaries)

At the close of business on June 30, 2005

ASSETS

(In Thousands)

Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin.....	\$1,171,151
Interest-bearing balances.....	750,000
Securities:	
Held-to-maturity securities.....	0
Available-for-sale securities.....	497,505
Federal funds sold and securities purchased under agreements to resell:	
Federal funds sold in domestic offices.....	69,065
Securities purchased under agreements to resell.....	89,249
Loans and lease financing receivables:	
Loans and leases held for sale.....	10,974,068
Loans and leases, net of unearned income.....	\$10,977,479
Less: Allowance for loan and lease losses.....	98,056
Loans and leases, net of unearned income and allowance.....	10,879,423
Trading assets.....	0
Premises and fixed assets (including capitalized leases).....	190,013
Other real estate owned.....	65,939
Investments in unconsolidated subsidiaries and associated companies.....	77,857
Customers' liability to this bank on acceptances outstanding.....	0
Intangible assets.....	2,231,771
Other assets.....	1,506,332
TOTAL ASSETS.....	<u>\$28,502,373</u>

LIABILITIES

Deposits:	
In domestic offices.....	\$8,080,375
Non-interest bearing.....	\$2,186,727
Interest-bearing.....	5,893,648
In foreign offices, Edge and Agreement subsidiaries, and IBFs.....	2,911,050
Interest-bearing.....	2,911,050
Federal funds purchased and securities sold under agreements to repurchase.....	
Federal funds purchased in domestic offices.....	2,025,243
Securities sold under agreements to repurchase.....	447,110
Trading liabilities.....	0
Other borrowed money.....	10,263,715
Bank's liability on acceptances executed and outstanding.....	0
Subordinated notes and debentures.....	237,498
Other liabilities.....	1,729,704
TOTAL LIABILITIES.....	<u>25,694,695</u>

EQUITY CAPITAL

Common Stock.....	21,296
Surplus.....	1,836,571
Retained earnings.....	935,836
Accumulated other comprehensive income.....	13,975
TOTAL EQUITY CAPITAL.....	<u>2,807,678</u>
TOTAL LIABILITIES AND EQUITY CAPITAL.....	<u>\$28,502,373</u>